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Politics this week

Apr 4th 2002
From The Economist print edition

Sharon's war

EPA

Violence between **Israel and Palestinians** rose to new heights. Palestinian suicide-bombers launched several attacks in Israeli cities, including one at the beginning of the Passover holiday that killed 26 people. In response, Israeli tanks invaded eight Palestinian towns, causing devastation. Fighting continues.

See article: The Israeli-Palestinian conflict on the ground

Tanks entered **Yasser Arafat's** complex in Ramallah, besieging him on one floor of his office block. Ariel Sharon, Israel's prime minister, offered him a one-way ticket into exile. Mr Arafat said that he would rather die. Colin Powell, America's secretary of state, promised to “press hard” for a political solution, and the United States backed a UN Security Council resolution calling on Israel to withdraw. George Bush, however, seemed to support the Israeli attacks. Egypt broke off government-to-government contacts with Israel, but maintained diplomatic links.

See article: Sharon's war

Islamist rebels ambushed and killed 21 soldiers in northern **Algeria**. Over 300 people, a third of them Islamists, have died in the violence this year.

Angola's civil war looked as if it might at last end, after the government and UNITA rebels signed a ceasefire, and the parliament approved an amnesty for guerrillas who surrender. This appears to represent a defeat for UNITA, whose leader, Jonas Savimbi, was shot dead by government troops in February.

See article: Peace in Angola?

Zimbabwe's opposition, the Movement for Democratic Change (MDC), began tentative talks with the party of Robert Mugabe, who blatantly stole an election last month. The MDC is calling for fresh elections; the ruling party refuses to consider the notion. The MDC leader, Morgan Tsvangirai, faces treason charges, which carry the death penalty.

The Revolutionary United Front, a cultish rebel army best known for amputating civilians' hands during **Sierra Leone's** recent civil war, said it would not take part in a presidential election, due in May. The rebels were angry that their leader, Foday Sankoh, was barred from standing on the grounds that he was not a registered voter.

Minority verdict

A party backed by **Ukraine's** authoritarian president, Leonid Kuchma, was declared the winner of last weekend's general election, though a reformist party appeared to have won the biggest tally of votes (23%) for the half of parliament's seats contested on a national list.

See article: Ukraine's messy election

EPA

In France, three **synagogues** were attacked; one, in Marseilles, burned down. French Jews suspected young Muslims protesting against Israeli actions. Muslim

leaders condemned the attacks. In Brussels, firebombs were thrown into a synagogue.

See article: A burst of anti-Semitism in France

Portugal's about-to-be prime minister, Jose Manuel Durao Barroso, named his ministers. Besides his own Social Democrats, three are from the populist People's Party. Its leader, Paulo Portas, will be defence minister.

In **Germany** strikes spread in support of the claim by IG Metall, the metalworkers' union, for a 6.5% wage rise. Worse is yet to come, said the union, if the employers do not increase their 2% offer.

Queen Elizabeth the Queen Mother, widow of Britain's King George VI, died aged 101.

See article: Queen Elizabeth the Queen Mother

Ireland's government announced that by the end of the year it would call a fresh referendum on the Nice treaty, needed for EU enlargement. Irish voters have already rejected it once.

A 50th person died in **Turkey's** serial hunger-strike in protest against conditions in prison.

Referendum ruling

Pakistan is to hold a **referendum** on extending President Pervez Musharraf's rule for five years. The self-appointed president took power in October 1999, ousting the elected government. Opposition parties said the referendum would be unconstitutional and that they would call for a boycott.

See article: Pakistan's presidential referendum

Foreign ministers of Islamic countries meeting in Kuala Lumpur in Malaysia condemned international **terrorism**. But they rejected “any attempt to link terrorism” with the struggles of Palestinians and others fighting against foreign occupation.

Ten people died in renewed clashes between Hindus and Muslims in the Indian state of Gujarat. Over 800 people have died since February in India's worst **religious violence** in a decade.

Reuters

A South Korean presidential envoy arrived in **North Korea** for talks aimed at easing relations between the two countries. In what seemed to be a softening of America's hard line towards North Korea, George Bush said it would release $95m as part of an agreement to replace the North's nuclear reactors with “safer” plants.

The interim government of **Afghanistan**, saying that it had unmasked a plot to overthrow it, arrested up to 300 people.

See article: Signs of hope in Afghanistan

Three strikes reconsidered

America's Supreme Court decided to review the constitutionality of California's “three-strikes” law, which imposes mandatory long prison terms on those convicted of a third felony, however trivial. It also ruled that workers who were in America illegally were not entitled to back-pay if they were dismissed from their jobs, even if the dismissal was unlawful.

See article: The Supreme Court reconsiders the three-strikes law

Domingo Cavallo, **Argentina's** former economy minister, was arrested on the order of a judge investigating an arms-smuggling affair dating from the early-

EPA

1990s.

In **Canada**, the Parti Québécois, which lost a referendum proposing secession in 1995, made plain that it has no plans for another one. Slipping in opinion polls, it is attempting to increase its appeal to English-speaking voters.

In **Brazil**, nine ministers resigned from President Fernando Henrique Cardoso's government in order to stand in October's general election.

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Business this week

Apr 4th 2002
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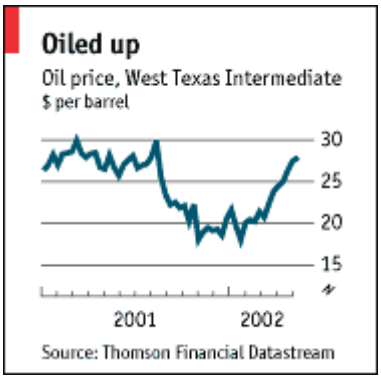
Target Enterprise

Enterprise Oil's efforts to remain independent stumbled after an offer of £3.5 billion ($5.0 billion) from Shell. Enterprise, Britain's biggest independent exploration company, was thought to be a target for Eni, an Italian oil and gas company; an unsolicited (though undisclosed) approach to Enterprise spurred Shell into action.

Oil prices hit a six-month high as fears mounted over the situation in the Middle East. The impact of mounting violence between Israel and the Palestinians was compounded by Iran and Iraq's threat to cut off oil supplies in support of the Palestinians.



DSM, a Dutch chemicals company, sold its petrochemicals division to **Sabic**, a government-controlled Saudi Arabian petrochemicals company, for *euro*2.3 billion ($2.0 billion). The Saudi firm, intent on further acquisitions, has also talked to Italy's Eni regarding its chemicals business.

Andersen fragments

KPMG's hopes of acquiring the bulk of **Andersen's** non-American business collapsed with the decision of Andersen's Spanish operations to join up with Deloitte & Touche (the Latin American operations may well follow). While KPMG discussed a worldwide link with Andersen, individual units made separate deals with “big five” rivals. KPMG may now join the scramble for the choicest remaining businesses.

See article: Andersen's fewer options

Walter Hewlett's determination to undermine a merger between **Hewlett-Packard** and **Compaq Computer** cost him his seat on HP's board; he will not be nominated for re-election, bringing to an end board representation from either founding family. His latest move: a lawsuit alleging that HP used “improper means” to secure shareholders' votes in favour of the deal.

See article: Hewlett vs HP

Microsoft announced that Rick Belluzo, president and chief operating officer, would leave after little more than a year in the job. Managers of the six main business units will get more control and accountability. The number-three job at the computer giant may remain unfilled.

Xerox, a heavily indebted photocopier company, settled a long-running dispute with America's Securities and Exchange Commission over irregular accounting for leased products. It agreed to change its treatment for revenues amounting to $2 billion and restate accounts between 1997 and 2000. Xerox also paid a penalty of $10m without admitting liability.

Liberty Media joined the club of companies forced to write off the value of acquisitions made during the technology boom. The American company sliced $4.1 billion off the worth of assets, contributing to a loss of $6.2 billion last year. **Qwest Communications** overshadowed this trifling sum by announcing that it will write off up to $30 billion later this year.

NTT, Japan's biggest telecoms company, revealed that it would write off ¥2 trillion ($15.1 billion) from

the value of overseas assets bought when prices and expectations were sky-high. Losses for the year to the end of March will be ¥865 billion.

Low flying

Fairchild Dornier, the world's third-largest regional-jet maker, filed for bankruptcy protection in Germany. The German-American firm will continue its search for a partner—reports have linked it to Boeing. German banks agreed to tide it over with loans underwritten by Bavaria's government, an arrangement that may arouse the interest of the European Commission.

Credit Suisse First Boston said that 15% of its investment bankers, around 300 employees, would go in its latest round of job cuts. For the first time these will include senior bankers. The bank has pledged to save $1 billion in costs this year to shore up profitability.

See article: Strategies for corporate and institutional banking

South African Breweries was reportedly close to a deal to buy America's **Miller Brewing** from Philip Morris for around $5 billion in cash and shares. SAB would become the world's second-largest brewer after Anheuser Busch.

Rumours bubbled to the surface that **Coca-Cola** may soon announce a new vanilla-flavoured addition to its fizzy-drink range. The last successful addition to the Coke stable, Cherry Coke, was launched in 1985 at the same time as New Coke, a short-lived and costly mistake for the company.

Perhaps perversely, Taito, a Japanese **karaoke-machine** maker, said it would join forces with Analog Devices, an American chip maker, to develop karaoke technology that will eventually adjust any singer to pitch perfection. Ending the off-key maundering of drunken crooners will force people to find other embarrassments on a night out.

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Israel and Palestine

Sharon's war

Apr 4th 2002
From The Economist print edition

Self-defence. And folly too

Reuters

Get article background

SO THE Organisation of Islamic States has determined that Palestinian suicide attacks on Israel do not amount to "terrorism". But how else to describe the murder of a dining-roomful of elderly Jews at their Passover supper in Netanya last week? And this attack, which killed 26 people, was only one of scores of atrocities. Over the past two years, but with mounting intensity since America sent General Anthony Zinni to negotiate a ceasefire, Palestinian "martyrs" sent out from the West Bank have waged a campaign of mass murder against Israeli civilians.

As intended, these attacks have sown terror and destroyed normal life in the Jewish state. Whatever else you think about Ariel Sharon's decision to send his army back into the Palestinian areas of the West Bank, the Israeli prime minister is therefore entitled to call his new campaign a war against terror. America agrees with that view. In a speech on April 4th, George Bush signalled a deeper engagement with the crisis, saying that Colin Powell, the secretary of state, would travel to the region. The president also restated calls for Israeli restraint—while affirming Israel's right to defend itself.

Most Arab leaders, and many European ones, find this self-defence proposition impossible to accept. They are, indeed, outraged by it. At last week's Beirut summit, Arab leaders extended Israel a grudging hand of peace but also voiced admiration (and pledged material support) for the *intifada*, which they see as a just war whose deserving end—casting off Israel's occupation—justifies the appalling means. Even European governments that are willing to call Palestinian terrorism by its proper name reject Israel's right to make any military reply, least of all by invading territory it signed over to Yasser Arafat's Palestinian Authority under the Oslo accords.

Thanks, but the liberation battle continues

These governments are in a sort of denial. They see that Mr Arafat remains essential to peacemaking and so refuse to admit what he is up to. Under Oslo, Israel gave up occupied land in return for Mr Arafat's promise to prevent attacks from it. Since the collapse of President Clinton's peacemaking at Camp David, Mr Arafat has reneged on this promise. He probably did not plan the *intifada*. And it was not possible for his policemen to stop every suicide bombing. But in recent months, blaming Mr Sharon's provocations, they have not seriously tried. Mr Arafat repudiates the occasional atrocity. But when he calls for "a million martyrs" to liberate Jerusalem, the martyrs know what he means. He has, in short, pocketed what Oslo gave him and relaunched a liberation war, hoping that this might deliver the gains that diplomacy failed to. Once he poked Israel hard enough, Israel was bound to snap back.

He has poked; and Israel has snapped. But this does not make Israel's new war wise. Like most military ventures, it will have unlooked-for consequences. It could set alight Israel's border with Lebanon and destabilise Arab countries, such as Egypt and especially Jordan, that have made peace with the Jewish state. It could cause the permanent withdrawal of the peace offer extended at the Beirut summit. And it has already confounded America's hope of Arab support for a renewed attempt to unseat Saddam Hussein.

Beyond this, “Operation Defensive Wall” will almost certainly fail to achieve its declared aims. One is to uproot the Palestinians' terrorist “infrastructure”. But this consists in the main of a supply of bitter men and women willing to kill and be killed on Palestine's behalf; and the bitterness can only grow after Israel's onslaught. Another declared aim is to “isolate” Mr Arafat. But the deadly comedy which Mr Sharon has staged around his old adversary's Ramallah headquarters has had the opposite result. Having lost much lustre for his incompetent administration of the embryonic Palestine, Mr Arafat is suddenly again the beleaguered symbol of his people's aspirations. Whatever Mr Sharon may say, the rest of the world continues to deem him Israel's indispensable interlocutor.

Infrastructure, shminfrastructure

If this war's declared aims are doomed to fail, what about the undeclared ones? The Americans, and the Labour part of Mr Sharon's “unity” cabinet, seem to hope that Israeli military pressure will persuade Mr Arafat to accept the ceasefire terms he has so far refused from General Zinni; and that this will in turn lead, via America's Tenet (security) and Mitchell (confidence-building) plans to the path of negotiation.

A nice idea; but too neat by far. First, far from buckling under Mr Sharon's pressure, Mr Arafat may choose only to harden his conditions for accepting a ceasefire. So far in this *intifada*, the Palestinians have endured extraordinary hardships, including the loss of lives and livelihoods, without flinching. Mr Arafat cannot easily risk calling a stop with nothing to show for all his people's sacrifices. Besides, Palestinian leaders have calculated all along that Israeli escalation might bring them exactly what they wanted: international peacekeepers, and a leap beyond the gradualism of Oslo to a settlement that pushes Israel all the way back to its pre-1967 borders. The paradox of Mr Sharon's big new war is that it is also Mr Arafat's big new opportunity. He will not wish to squander it.

A second complication is that nobody can be sure of Mr Sharon's true war aims. He certainly has form. As defence minister, and architect of Israel's calamitous Lebanon war of 1982, Mr Sharon proved adept at saying one thing to his cabinet, another to the Americans, and implementing a third policy on the ground. It is all very well for the Americans and his coalition partners to hope that this war will force the Palestinians back to a ceasefire and peace talks. But Mr Sharon is a champion of Jewish settlement in the West Bank and an avowed loather of Oslo. Although George Bush urges him to keep open a “pathway to peace”, Mr Sharon seems intent on making sure that Israel can never again negotiate with Mr Arafat, the “enemy” he publicly regrets sparing in 1982.

Given this, it is no surprise that America has dithered. The fighting has put Mr Bush in a quandary. He is utterly serious about the global war he has declared on terrorism. After atrocities like the one at Netanya, he cannot say that what Israel is fighting is not terrorism. Yet Palestine does not fit the September 11th template. For this is terrorism harnessed to a deserving cause: the independent statehood that America itself has taken pains to say it supports. In principle, Mr Bush could solve his riddle by supporting the end but not the violent means by which the Palestinians have chosen to attain it. In practice, this probably requires working with Mr Arafat, a reformed terrorist returning to former ways. Hence the air of improvisation in American policy. Mr Bush appears to have given Mr Sharon a free hand for a short period, in the desperate hope that a chastened Mr Arafat, whom Israel is under orders to preserve, will thereafter see the error of his ways.

If this is a plan, it is indeed a most desperate one. What if it should fail? Such is the misery of Israelis that Yossi Sarid, Israel's opposition leader, has proposed a previously unthinkable idea: the creation, in the Balkan manner, of some sort of international protectorate for the occupied territories, to restore calm while their ultimate status is resolved. For the present, virtually nobody takes this idea seriously. Mr Sharon would call it a reward for terrorism. Who would dare to supply the troops? In the 1940s, the British mandate in Palestine collapsed in chaos. But the day is coming when there may be no alternative. Except for Jews and Arabs, locked in their eternal embrace, to drown one another in a sea of blood.

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Executive pay

An expense by any other name

Apr 4th 2002
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The wrong way to treat stock options

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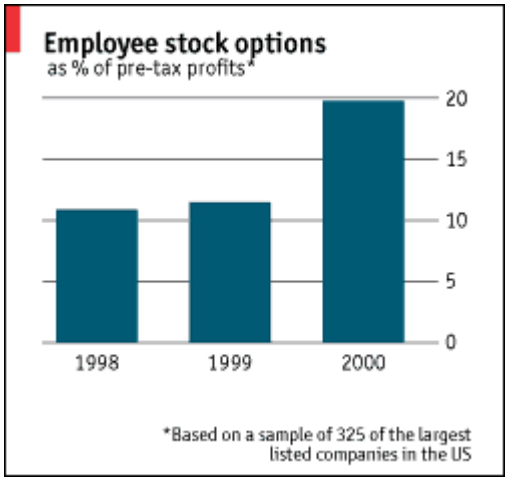

THIS is “proxy season” in the United States: that springtime moment when companies reveal in their annual proxy statements details of the compensation packages they have awarded their top executives in the past year. As most companies are doing worse than a year ago, and many shareholders are miserable, this is an awkward moment in the boardroom: how to explain to shareholders who have lost their shirts that the chaps at the top are still well dressed?

An analysis by Pearl Meyer, a consultancy, finds that chief executives' pay in the 200 largest American corporations declined overall by 4% last year—but board compensation grew by 10%. Some awards seem especially insulting to shareholders. J.P. Morgan Chase, which had heavy commercial-lending losses last year, rewarded William Harrison, its chief executive, with a special $10m bonus for managing its merger in 2000. In April last year Douglas Daft, the chief executive of Coca-Cola, was given a lower performance target to meet in exchange for a generous helping of restricted stock.

All this corporate kindness raises hackles. In 60-70% of big American companies, the compensation consultant employed to recommend the reward of a company's top brass is chosen by the company. That may give the chief executive a say in fixing his own salary (see article). Occasionally, companies shop around for a consultant who will come up with the right figure, or meddle in the choice of peer group. In the wake of the debacles of Enron and Global Crossing, such behaviour does no good to the public image of corporations.

Paying perversely

If image alone suffered, this might not matter. As long as companies do well, shareholders tolerate and even approve of big rewards to those who run them. A greater worry is that American accounts treat a main form of executive pay—stock options—in such a way as to exaggerate profits grossly and mislead shareholders. A more honest accounting is needed.

The use of stock options to reward chief executives has risen enormously in the past decade. Last year, stock options accounted for 58% of the pay of chief executives of big American companies. The use of stock to reward executives began as part of a deliberate attempt to align the goals of managers with the interests of the company's owners. Has that succeeded? Hard to say. In spite of reams of research, a new study from the Federal Reserve Bank of New York has just concluded that “there is presently no theoretical or empirical consensus on how stock options affect...firm performance.”

What is clear, however, is that options have greatly diluted corporate equity: shares allocated for options at America's top 200 corporations grew to a remarkable 16.4% of shares outstanding by the end of 2000. Clear, too, is that the accounting treatment of options has overstated profits. Options, unlike wages and other benefits, are not subtracted from current earnings. Warren Buffett, chairman of Berkshire Hathaway and a persistent critic of options, puts it thus: “In effect, accounting principles offer management a choice: pay employees in one form and count the cost, or pay them in another form and

ignore the cost. Small wonder then that the use of options has mushroomed."

Now, various studies are showing the extent to which this treatment of options has inflated profits. One by Bear Stearns suggests that treating options as expenses would have cut earnings per share for the S&P 500 companies by an average of 9% in 2000. Another, by Andrew Smithers, a British economist who has long drawn attention to this aspect of options, suggests that options in 2000 amounted to an average of 19.7% of the profits of big American firms—and a staggering 72.8% in the case of information-technology companies. And Alan Greenspan, citing research by the Federal Reserve, says that the tax treatment of options inflated reported growth in the earnings of large companies by about two and a half percentage points a year between 1995 and 2000. Had options been treated as expenses, it would have become quickly apparent that the boom in American company profits ended in 1997.

Corporate lobbyists fought off an earlier attempt by America's accounting standards board to insist that options be treated as expenses. President Bush's recent suggestions for improving corporate governance said nothing on the issue. But the International Accountancy Standards Board will produce a new draft standard on options in the autumn. There are no good arguments for continuing to pretend that options cost nothing. The rules should at last reflect reality.

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Shipping

The perils of packet switching

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The world has come to depend on a global network—despite its lack of security

Getty Images

IT IS a vast global network on which billions of people have come to rely. Its high-capacity international links are the very arteries of world trade. At its heart is a brilliant innovation: the division of network traffic into standardised “packets”, thus reducing switching costs and ensuring universal compatibility. The use of open standards, rather than the proprietary approach that once dominated the industry, ensures that equipment made by different vendors around the world works together seamlessly. Network activity boomed during the 1990s, prompting an increase in capacity that now looks reckless. But optimists insist that the industry's long-term success is assured. The Internet? No, the container industry.

Both networks, one for information, the other for physical goods, exploit open standards to speed the flow of traffic. But with free-flowing traffic comes a risk: a lack of security. On the Internet flourish viruses, hackers, and file-swapping networks on which music and video are freely distributed. The trouble is that, on an open network, it is hard to prevent illegitimate activity without hindering the legitimate kind. Too much regulation or monitoring risks stifling economic activity.

The security problems associated with containers are less well known, but are arguably far more serious (see article). The 15m containers currently at sea or parked in shipyards account for around 90% of the world's traded cargo, yet only 2% of shipments are ever physically inspected. Containers have long been used to smuggle drugs, contraband and illegal immigrants. Last October, a suspected al-Qaeda terrorist was found inside a container at an Italian port, equipped with airport plans, security passes and supplies for the container's journey to Canada. Terrorists surely know that containers offer an ideal way to move a nuclear weapon into a big city—exploiting the global shipping network much as terrorists last year exploited the global air network.

Almost as worrying is the possibility that security measures introduced to prevent such an attack might cripple global trade. The widespread adoption of “just-in-time” logistics makes many firms horribly vulnerable to delays in shipments, as the two-day closure of the American-Canadian border last September showed. It will therefore be hard to strike the right balance between freedom and security.

The really important network

All of which highlights an important difference between the Internet and the container network. For many people, the Internet is more visible in everyday life. But when it is disrupted, they find other ways to communicate: by telephone, by fax, or even by old-fashioned snail mail. Information, by its very nature, can find other routes. But physical goods cannot. The container network, rather than the Internet, is the global packet-based network that the world cannot do without.

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Afghanistan

Guns before butter

Apr 4th 2002
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Without an effective peacekeeping operation in Afghanistan, much of the aid will be wasted

EPA

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A LOT has been achieved in Afghanistan. Taliban rule is a distant memory, the al-Qaeda terrorists whom they sheltered are reduced to fighting a losing battle from remote hideouts, and the long work of rebuilding a nation shattered by more than two decades of war has begun. More than $4 billion has already been pledged by donors for the purpose. Beards are disappearing, if not yet many burqas, and a date has been set in mid-June for the calling of the *loya jirga*—a mainly elected constitutional assembly of 1,450 delegates which will choose a representative government.

All these achievements, though, are contingent on Afghanistan's staying peaceful. And that is very far from certain. In the absence of a properly functioning national army or police force, security outside Kabul rests in the unreliable hands of local warlords. Skirmishes between rivals have been common, and the threat of them is hindering reconstruction, making travel difficult and the writ of the central government uncertain. Iran meddles in the west, Russia in the north. The former king, Mohammed Zahir Shah, has repeatedly had to postpone his return on security grounds (see article).

In time, a national army should emerge: Britain and Germany are training a presidential guard, and America is soon supposed to start training a full brigade. But it will be a good while yet before such an army is up to the task of managing national security, not least because there are no funds available as yet to run one. The obvious interim solution is to extend the scope of the existing International Security Assistance Force (ISAF), which does a fine job of keeping Kabul safe, but has not been given the authority or the men to operate outside it.

Remember Bosnia

This idea has been urgently studied for months, without result—mainly, it is clear, because of American reservations. All the international commanders serving in Afghanistan support the idea of extending the ISAF's mandate, as does the UN secretary-general, and his respected representative to Afghanistan, Lakhdar Brahimi. The Afghans favour the idea too: their interim prime minister, Hamid Karzai, has flown around the world begging for a beefed-up ISAF. The regional governors too are uniformly favourable.

The suggestion, frequently made by opponents of “nation-building”, that the ISAF would be a force sent into a hostile quagmire does not square with reality. A more accurate analogy would come from Bosnia, where in 1996 America boldly contributed a third of a peacekeeping force that went in heavily with 60,000 men, and has proved so successful that it has been progressively reduced to just 15,000—with not an American life lost. Even now, admittedly, Bosnia is hardly a perfectly built nation. But it is at peace, and gradually improving. Those improvements could not have happened without the peacekeepers: security is the essential prerequisite for everything else. Without it, money spent on aid and development is money down the drain. That is as true in Afghanistan as it has proved in Bosnia.

One reason for the Americans to pay more attention to this is that it will influence how other people think about Iraq. If the United States does indeed decide on “regime change” there, it certainly has the military wherewithal to remove Saddam Hussein. But even those who most ardently desire the dictator's removal

are anxious about what will follow him. A free-for-all in Iraq would be a greater danger to international security than chaos in Afghanistan could ever pose. Iraq's Shia minority on its southern border with Saudi Arabia, its Kurds in the north bordering Turkey, its enmity with Israel, its vast oil supplies and its long rivalry with Iran all point to the dangers. Some form of robust international security arrangement will surely be needed in Iraq after the fall of Saddam, until the authority of an acceptable new government can be established. In Afghanistan, the Bush administration has yet to prove that it is willing to tidy up after its military victories.

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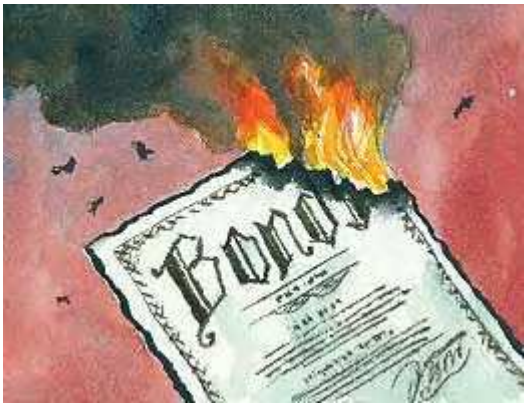
Sovereign bankruptcy

A better way to go bust

Apr 4th 2002
From The Economist print edition

America's ideas for restructuring bankrupt countries' debts are too timid



UNDER President Bush, the Treasury has argued that the world needs a better way to deal with countries that cannot pay their debts. Argentina's plight proves it. Efforts to restructure the debts that caused the biggest sovereign default in history have not even started—and the first bondholder has already sued in a New York court. Sorting it out will be a long, arduous, wealth-destroying business for Argentina and its creditors alike. Unfortunately, America's proposed remedies hold out little hope of progress.

Sovereign debt crises are messy because there is no clear legal procedure. Countries, unlike companies, cannot seek the protection of a bankruptcy court. Important features of domestic bankruptcy law—an impartial judge, protection from lawsuits, the ability to force restructuring terms on recalcitrant creditors—do not exist for sovereign borrowers. The difficulty is how to plug this hole in the international financial system without scaring off investors in emerging markets altogether.

One option—once touted by America's Treasury secretary himself—is to mimic the main features of domestic bankruptcy. Last November, Anne Krueger, the IMF's deputy managing director, proposed just such a debt restructuring mechanism, to be administered by the Fund. After widespread criticism that this would put too much power in the hands of an organisation with political masters, Ms Krueger offered a revised plan this week. The IMF's rules should be amended, she argued, so that decisions on restructuring a country's debt should be made by a “supermajority” of all its creditors—say between 60% and 75% (see article).

Now, however, the Bush administration has decided it is none too keen. John Taylor, the top international man in America's Treasury, is against reforms that are too “centralised”, or forced on emerging markets and their creditors by a change in the Fund's rules. Instead, the administration wants to encourage creditors and borrowing countries to change their bond contracts voluntarily in a way that makes future restructuring easier. New bond contracts could include clauses that allow a majority of bondholders to authorise a debt restructuring (under American law, the financial terms of a bond contract cannot normally be changed unless all bondholders agree). International financial reform, says the administration, should do no more than encourage this shift by, say, offering countries lower interest rates on IMF loans.

Keeping out of it

The Treasury's new position is politically attractive. It avoids the tough job of cajoling Congress into approving a change in the IMF's rules; it avoids giving any more power to an institution that the Bush administration views with deep suspicion; it avoids upsetting Wall Street. But there are big drawbacks. The Treasury's frugal incentives are unlikely to persuade most borrowers to adopt the new clauses. They might even make matters worse. It is the weaker emerging markets that borrow from the IMF. If those countries, and only those countries, are induced to issue such contracts, the new terms could be seen as a mark of weakness by financial markets, making them even less attractive as a model for other borrowers. This danger is increased by the fact that America has already ruled out introducing such clauses in its own bonds.

Also, even if the new clauses caught on widely, the Treasury's approach is somewhat beside the point. It applies only to new debt. It has almost nothing to say about restructuring the existing debt. If the new clauses did come to be commonly used, they would make restructuring smoother, but they would still fail to solve a key problem: today's sovereign defaults involve numerous creditors holding many kinds of claim, from bonds to trade credits. Modifying individual bond contracts would make it no easier for a country to reach an overall restructuring agreement with its assorted existing creditors. That demands a change in international law. Unfortunately, the Bush administration has chosen not to seek it.

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About sponsorship

Letters

Apr 4th 2002
From The Economist print edition

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Indian summary

SIR – Unfortunately, you are right to say of India that "many Hindus would refuse to accept that it is 'their [Indian Muslims] own country' at all" ("After Ayodhya", March 23rd) The growth of the BJP and its sister organisations would not have been possible if they had no support. Also, Muslims have failed to produce any sensible leadership. Their leaders, as ever, seem to sustain themselves on fanning the flames of divisiveness, providing a fertile ground for the growth of parties like the BJP and the views it represents. This growth has been catalysed by identification with causes such as building the Ram temple at Ayodhya. But, surprisingly, realpolitik has made the BJP compromise on its objectives and it has been more than willing to do so in its quest for power.

It is interesting and significant that parochial and regional parties in the ruling coalition have forged a common minimum agenda. While this consensual politics and alignment of agendas—spanning linguistic, ideological, geographic, and even religious and caste-based boundaries—seems to be on the increase, the division between the mainstream and Muslims appears as unbridgeable as ever, at least in most parts of the country.

S. Vakkaleri
Dundee

Word imperfect

SIR – Like sausage and laws, software is also something you do not want to watch being made ("A lemon law for software?", March 16th). As a technical writer in the software industry, I am both a witness to and victim of its inefficiency, chaos and mismanagement. As part of the antitrust judgment against Microsoft, the court should have made Bill Gates fix the bugs in "Word" that frustrate millions of users daily, providing strong evidence of the harm caused by monopolistic behaviour. Perhaps the judge thought this would be a cruel and unusual punishment?

Stephanie Johnson
Portland, Oregon

Reforming Vietnam

SIR – Your article on Vietnam underscores the difficulties in implementing pervasive economic reforms in a low-income transitional economy ("Reluctant capitalists", March 16th). However, you underestimate the government's commitment to further liberalisation at the highest level. Privatisation may have proceeded at a slower pace than anticipated but other areas have progressed faster. For example, in addition to its commitments to accede to the ASEAN free-trade area within five years, last October Vietnam concluded a comprehensive bilateral-trade agreement with the United States and in December submitted its first offer to join the WTO.

Rather than "still cautious", Vietnam's process of economic reform is picking up considerable steam. Many challenges await, but the opportunities are evident: the opening up of the Vietnamese economy has already implied a reduction in the poverty rate from one-half to one-fifth of the population. Anti-globalisers take note.

Michael Plummer
Bologna, Italy

Unwanted callers?

SIR – We country folk in Miami have used interactive voice-response equipment for “Get Out The Vote” campaigns, key endorsements and targeted messages since the beginning of the 1990s (“Honey, George Bush is on the line”, March 23rd). It was established and successful long before the 2000 presidential elections.

Having run more than a few of these operations, the key is to make the calls voter friendly. They work best with a recognised politician. Also, I coach my candidates to begin by identifying themselves and apologising for the recorded message. They continue: “This message is so urgent I need to get it to you any way I can.” No message should take longer than 30 seconds. Automated calling works. It gets good people elected. Tough luck if you do not like it.

Creigh Shank
Miami

SIR – There is a handy device on the market here in Los Angeles called the “Telezapper”. It is designed to hang up automatically on computer-generated telemarketing calls, whether they are from a far-distant company or pre-recorded announcements from George Bush. This should serve as an effective antidote to the marriage between long-winded politicians and telemarketing technology.

Ed Wu
Los Angeles

Rights and wrongs

SIR – Michael Kalk (Letters, March 16th) chides you for your assertion that “like most Americans, [Charlotte Beers] naturally assumes that her values are the right ones”. He then implies that the only alternative to such a scenario is the one “where most people assume that their values are the wrong ones”. However, assuming is not the only possibility: we can doubt, equivocate, presume pending testing and so on; we can do any or all of these things about some or all of the values that constitute our set; and we can predicate on the basis of right, wrong or indeterminate (at least). We can then differentiate the rightness itself as between moral rectitude, situational appropriateness, mutual consistency, and other conceptions.

Consequently, permutation of different mental positions, consideration of various groupings of our individual values rather than an indivisible whole, and diverse ideas of rightness provide a richly nuanced myriad of options rather than the polar pair of opposites that Mr Kalk incorrectly suggests is exhaustive. Therefore, assuming only that Mr Kalk is American (and not just writing from Texas), his letter stands as anecdotal evidence for your original assertion: he clearly assumes that he is right. But he is wrong.

Angus McCallum
New York

Audit information

SIR – In your list of botched audits you include the name McKesson (“Count down”, March 16th). Deloitte & Touche was the McKesson auditor in 1999 as it merged with HBOC, which was audited by Arthur Andersen. All of the restatements that led to the Securities and Exchange Commission investigation and lawsuits by shareholders involved HBOC financial statements covering periods prior to any covered by a Deloitte audit of the merged entity. Deloitte is not a party to any government or private action regarding McKesson.

Paul Marinaccio
Deloitte & Touche
New York

Don't blame Canada

SIR – You may deservedly fault Canadians for many offences (Tom Green, Bryan Adams, Pamela Anderson and Celine Dion come immediately to mind). You may not, however, blame us for Mariah Carey (The world this week, March 23rd). She is a uniquely American catastrophe.

Ben Rose
San Francisco

SIR – America slaps us with a stiff duty on softwood products and then you identify Ms Carey as a Canadian. Can't we all just get along?

Ian Crandall
Toronto

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The war on the ground

Carnage in Israel, conquest in Palestine

Apr 4th 2002 | JERUSALEM AND RAMALLAH
From The Economist print edition

With neither Ariel Sharon nor Yasser Arafat vanquished, the violence soars

Get article background

AMID carnage and devastation, and before an apprehensive worldwide audience, two old adversaries, both in their 70s, duel bloodily in a showdown that could eventually turn out calamitous for the entire region. Never before has the Israeli-Palestinian conflict looked so dangerous, or so insoluble without dramatic outside intervention.

Long gone are the days when Ariel Sharon and Yasser Arafat unconvincingly acted out their parts as statesmen, negotiating agreements. Both are now performing in their own true characters. There they are: the extreme Jewish nationalist who believes in Israel's God-given right to fight for wider borders versus a wily old-time resistance leader, prepared to throw lives to the wind to fight for independence against the occupying power.

Israel's prime minister claims that his new assault on Palestinian cities and instruments of government, including Mr Arafat himself, is necessary to defend his country against atrocious acts of Palestinian terrorism. But, beyond this, Mr Sharon has gone to war to obliterate the advances made over the past decade by the Palestinian nationalists he is not prepared to accept. The Palestinian leader, for his part, either cannot or will not stop the suicide-bombers who turn Israel's calm streets into scenes from hell. But, with his back to the wall, Mr Arafat is once again the potent symbol of that Palestinian nationalism that Mr Sharon rejects. There can be no meeting of minds between the two.

Mr Sharon has publicly regretted not “eliminating” Mr Arafat when, as Israel's minister of defence, he launched the invasion of Lebanon 20 years ago. But the conflict beween the two grisly old warriors is not personal in the sense, say, of the conflict between Saddam Hussein and George Bush father and son. It is a gargantuan tussle between the two national wills, Israeli and Palestinian, that Mr Sharon and Mr Arafat inadequately embody.

The region has been set on fire by the *intifada*, the second Palestinian uprising in less than a decade. After these revolts—and the seven years of negotiations that straddled them—Mr Arafat, speaking for all Palestinians, is not going to accept a political process that does not eventually end Israel's military occupation. And Mr Sharon, as one of the main architects of this occupation, is not going to accept any Palestinian leader who refuses to agree to the continuing existence of Jewish settlements, and the other facts born of the 1967 conquest. The result is that for one will to prevail, the other must be vanquished. And since neither has yet been vanquished, the violence soars.

Mr Sharon profoundly opposes the Oslo peace process, which is based on Israel living securely beside a

Palestinian state that contains most of the West Bank and Gaza. Instead, he sees a solution in a much more limited form of Palestinian autonomy (though he is happy to give this entity the trappings of a “state”) led by docile figures of his imagination.

He could not, when he was elected prime minister a little over a year ago, turn the clock back immediately. Instead he joined the diverse and powerful army of spoilers, led on the Palestinian side by militant Islamists, who have managed between them to sabotage the hopes of a permanent settlement along Oslo lines.

Dithering to disaster

The Palestinians are convinced that there can be no hope of a halfway decent political solution so long as Mr Sharon and his ilk are in control. But their leaders have done nothing to help the cause. On the contrary. Mr Arafat's brilliance as a resistance leader, keeping the gleam of Palestinian nationalism alive against all adversities, has been matched by lamentable bungling as chief executive of the Palestinian Authority (PA). He dithered over the *intifada*, sometimes encouraging it, sometimes trying to check it, more often letting it take its own course. Control slipped from him to the heads of the militia. Now, having helped to bring disaster on his people, he is again the brave resistance leader as Mr Sharon sets out to destroy him.

What is now happening looks, feels and smells like war. It involves the largest call-up of Israeli reserve soldiers since the Lebanon war; the invasion and re-conquest of (so far) six of the eight main cities in the West Bank; Mr Arafat held captive in his Ramallah headquarters; skirmishes on Israel's northern borders; Israeli and Palestinian civilians killed in their dozens, by suicide-attacks or by military attacks of great ferocity.

Since the second *intifada* erupted in September 2000, over 1,140 Palestinians and over 400 Israelis have been killed. Of these, 250 Palestinians and 124 Israelis perished last month alone, as Mr Sharon's military solutions moved seamlessly from shelling Palestinian areas to re-invading them, and Palestinian resistance went from guerrilla warfare to suicide-bombings in Israeli cities.

The latest and cruellest round in the conflict was triggered on March 27th. A Palestinian suicide bomber blew himself up in a hotel in Netanya on the eve of the Jewish Passover holiday, killing 25 Israelis and wounding over 100. It was the worst atrocity carried out inside Israel in the 18 months of the *intifada*.

AP

Tanks don't knock at the door

Mr Sharon declared his country at war and Mr Arafat an “enemy”, who, “at this stage, will be isolated”. The army was dispatched to invade Ramallah, Mr Arafat's “temporary” West Bank capital, and to enter his compound, besieging him on one floor of his three-storey office block. By candlelight, with his machinegun at his arm, the Palestinian radiated martyrdom.

Israel says the aim of its takeover of cities is to “uproot the terrorists” that have taken sanctuary within them. Palestinians say it is Israel's final assault on what is left of the PA as a prelude to the removal of the leaders themselves. Both are right, because Mr Sharon defines the PA as “a coalition of terror established by Arafat” .

The Israeli army is now going after Mr Arafat's inner circle. It is pursuing senior security officials who had previously been considered immune, partly because they have worked closely with the CIA, and partly because some of them had been seen by Israel as pragmatic alternatives to Mr Arafat. The army is also going after Marwan Barghouti, Mr Arafat's top political lieutenant in the West Bank, who is thought by many Palestinians to be a possible future leader.

Attacking the formerly immune

Among the 25 or so Palestinians slain in Ramallah this week were five PA police officers, shot in the head in what Palestinians insist was a summary execution by the Israeli army. And one of the most telling

events was Israel's aerial bombardment of the PA's Preventive Security Force (PSF) headquarters to compel the surrender of 200 Palestinians inside it. Until recently, the Palestinian police and the West Bank PSF were probably the only Palestinian security forces not engaged in fighting.

The Israelis say that they are searching for, and weeding out, fugitives and terrorists. But, for Palestinians, the killing of their officers and destruction of their institutions is not primarily for this purpose. It is, said Jibril Rajoub, the PSF chief in the West Bank, about ridding from Palestinian consciousness “the symbols of an independent Palestinian state”.

Similarly, the Palestinians claim that the Israeli army's operations inside their cities are about seeking “submission”, not fugitives. For five continuous days Ramallah's 100,000 residents endured a total curfew, often without electricity, food or water; this was briefly lifted at mid-week, only to be reimposed. Offices were shelled, homes ransacked, ambulances shot at, hospitals raided, the dead left unburied, and roads, walls and cars crushed by the marauding, unassailable tanks.

Palestinians in Bethlehem, Beit Jala, Tulkarm, Qalqiliya, Jenin and Salfit suffered similar punishment. On April 3rd, an invasion army of some 400 tanks entered Nablus, to be fiercely resisted. Bethlehem is particularly tense, with guerrillas and soldiers fighting house to house and Israeli tanks laying siege to 150 Palestinians who have saught sanctuary in the Church of the Nativity.

The Israelis, on their side, suffer fear. In a response both visceral and calculated, the first five days of the Ramallah curfew saw Palestinian suicide-bombers hit West Jerusalem (twice), Tel Aviv and Haifa, leaving 18 civilians dead and scores injured.

Israel is hoping to arrest or kill suicide-terrorists before they can act. But there is little that it can do to catch a Palestinian who wants to die wreaking havoc: not when, like Ayat Akhras from Bethlehem, she is 18, looks European and speaks Hebrew. She detonated herself in a West Jerusalem supermarket on March 29th, taking two Israelis with her. The streets of West Jerusalem are today as deserted and forlorn as those of East Jerusalem, its occupied sister. Few people leave their homes. And all are afraid.

Is there any way of descending down this ladder of carnage and conquest? The Palestinian leaders' insistent demand is for international intervention. The gut reflex of most Israelis is for total separation, based on defensible borders.

There is just one thought making the rounds that might satisfy both demands. Advocated by some Israeli politicians, and by some Palestinian intellectuals, it calls for Israel's unilateral withdrawal from all of Gaza and most of the West Bank, and for an international force “led by the Americans” to act as a buffer between the two peoples. The withdrawal would be deep enough to convince most Palestinians that one day they will be free. The buffer would be wide enough to give most Israelis the personal security they crave.

Neither leadership would accept it. The Israeli government would say that any withdrawal would be “a victory for terrorism”. The Palestinian leaders say that an interim deal would be a defeat for a struggle that is to end “with independence and with that only”. But a majority of both peoples—weary, bloodied and scared—might welcome such an initiative.

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Sharon's tactics

Shades of the Lebanese war

Apr 4th 2002 | JERUSALEM
From The Economist print edition

How Ariel Sharon may get round his coalition difficulties

Get article background

AS THE Israeli army's “rolling operation” rolls on, some Labour Party ministers are increasingly assailed by uncomfortable 20-year-old memories of Ariel Sharon's modus operandi as minister of defence in the disastrous Lebanon war that was launched in 1982. Then, as apparently now, cabinet decisions proved malleable when left in Mr Sharon's hands for their implementation.

On April 2nd, Mr Sharon told army officers he was “not ruling out” the expulsion of Yasser Arafat, although this was precisely what the cabinet did rule out, after bitter debate, at its all-night session that ended on March 31st. Mr Sharon told the officers that he hoped one of the various European envoys seeking to visit Mr Arafat in his “isolation” would offer to fly him away on a one-way ticket to exile. An aide explained later that, in that event, the prime minister would seek cabinet approval for the de facto deportation. Some ministers wondered whether, as during the Lebanon war, such approval would be sought retroactively.

Mr Sharon stressed that if Mr Arafat were “allowed” to go, as he put it, he would not be allowed to take the militants whom Israel believes are sheltering in his beleaguered headquarters. Palestinian spokesmen say Mr Arafat would rather die than leave.

Mr Arafat's isolation, it turns out, was not a deliberate military tactic but an improvised political deal between Labour ministers and the majority in the cabinet who want Mr Arafat thrown out. Mr Sharon, it appears, was prepared to reject an appeal from Colin Powell, the American secretary of state, to leave Mr Arafat in place. But he was nonplussed when faced by the unanimous opposition of his intelligence services to Mr Arafat's ouster.

The heads of Mossad, the Shin Bet and military intelligence all urged the cabinet not to deport the Palestinian leader, for fear of exacerbating Palestinian violence and starting a backlash throughout the Arab world. They indicated that Israel's peace treaties with Egypt and Jordan would be put at risk. Binyamin Ben-Eliezer, the defence minister who now heads the Labour Party, said his party would withdraw from the coalition if the cabinet voted to deport Mr Arafat. The day was saved when Rabbi Eli Yishai, the leader of the ultra-Orthodox Shas party, came up with the notion of Mr Arafat's “isolation”.

Mr Sharon has since sent out feelers to three right-wing parties, with a view to wooing them into his government and thus freeing himself of his dependence on Labour. One of these is the National Union-Israel our Homeland block, which quit the coalition last month. Its leader, Avigdor Lieberman, now advocates the bombing of Mr Arafat's offices in Ramallah “and everyone inside them”.

Just as Mr Arafat's personal fate may be the subject of shifting Israeli decision-making, the future of the Palestinian Authority as a whole seems increasingly shaky as Israeli military action proceeds. Once again, this is despite an earlier cabinet decision that the PA would not be destroyed. On April 2nd, Israeli tanks and helicopters gutted the PA's security headquarters near Ramallah. American diplomats negotiated the surrender of some 200 people, who were taken in for questioning by the Shin Bet, which had alleged that up to 50 of them were known and wanted terrorists. Jibril Rajoub, the security chief, has been held up in the past as the kind of Palestinian pragmatist Israel would prefer to negotiate with instead of Mr Arafat. But negotiating is plainly not a priority these days.

Lebanon is on Israeli minds for other reasons too. Fears of the conflagration spreading beyond the occupied territories are concentrated on the Israeli-Lebanese border, where the army and the Hizbullah

militia have been trading increasingly frequent fire. On April 2nd, a Katyusha rocket landed near the Israeli town of Kiryat Shmona. Hizbullah denies launching this, the first rocket attack since Israel withdrew in May 2000.

Mr Sharon, in a worryingly bluff mood later that day, said the army had excellent plans for the northern front. It was “intolerable”, he asserted, “that a military force [the Hizbullah] is growing there that purports to intervene in things that happen here.” His words were grimly reminiscent of his rhetoric of 20 years ago, before that war widened, under his direction, into a bloody and devastating campaign against Mr Arafat and his men.

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The Arab world

The anger swells

Apr 4th 2002 | BEIRUT
From The Economist print edition

But there is little they can do

AP

The Saudi-Iraqi kiss that shocked America

Get article background

ADDRESSING last week's Arab summit by satellite from his besieged headquarters in Ramallah, Yasser Arafat was in classic rambling form. While decrying Israeli “atrocities”, he welcomed the Saudi peace initiative and, in a concluding burst of magnanimity, wished Jews a happy Passover. Two hours later, a suicide-bomber from the Islamist group Hamas turned it into the saddest Passover in memory. And two days later, Israeli tanks smashed into Mr Arafat's headquarters, snuffing out whatever pale embers of hope the Saudi initiative had briefly fanned.

Israel's offensive has generated a tidal wave of outrage across the Arab and Muslim worlds. So far the anger concentrates on Mr Sharon, but fury at the Bush administration's inaction is catching up fast. America's Arab partners, assailed for their seeming impotence, are moving into the firing line too. Jordan and Egypt, the only Arab states to maintain formal diplomatic relations with Israel, have been wracked by daily demonstrations of unusual scale and ferocity, and protests have spread to such sleepy places as Oman, Tunisia and Bangladesh. A Japanese sympathiser even immolated himself in a Tokyo park.

Press commentary has been equally heated. Thanks, Mr Sharon, said a sarcastic column in the Egyptian government daily *Al Ahram*, for stripping off America's mask, uniting the Palestinian resistance, and dispelling Arab illusions that you would ever share our wish for peace. An editorial in the staid Saudi daily *Al Sharq al Awsat* said that television pictures of Mr Sharon's offensive were more effective in generating fanaticism than any number of al-Qaeda recruitment videos. Abdel Wahab Badrakhan, a columnist in the equally respected daily *Al Hayat*, described the assault on the Palestinians as “American stupidity meeting Israeli savagery”.

Ironically, Israel's incursions have raised the stature of their chief victim, Yasser Arafat, to new heights. Even those Arabs who have long condemned the Palestinian leader as a traitor for simply dealing with Israel now hail him as a paragon of Arab honour. In that role, he suddenly shares the limelight with figures such as Syria's hardline president, Bashar Assad.

Protests in Egypt and Jordan focus ever more acutely on the demand that they sever ties with Israel (Hosni Mubarak and King Abdullah had stayed away from the summit partly to avoid hearing Mr Assad make this call). In a gesture this week, the Egyptian government cut government-to-government contacts with Israel, though diplomatic channels remain open.

The Gulf monarchies, meanwhile, have fallen back on their cheque books, vying to lavish the Palestinians with aid. The crown prince of Dubai sent a gift of $5.4m. King Hamad of Bahrain, a staunch American ally, boldly told America that unless it intervenes to stop Mr Sharon, its interests in the region would be at stake. The warning is significant, since America's Fifth Fleet is based in Bahrain.

Saudi Arabia, for its part, has maintained a strained silence that belies deep chagrin. Crown Prince Abdullah invested both personal prestige and diplomatic capital to win Arab backing for his peace initiative. This week, he was reduced to saying that if George Bush understood the Palestinian issue he might just do something about it, if only because “he is a human being and has human feeling”.

The rich Gulf rulers are secure on their thrones, but Mr Mubarak and Jordan's King Abdullah rely on American aid to prop up their regimes. They are now squeezed between the Bush administration's support for Israel and their own peoples' fury. The discomfort is specially acute for Jordan. Two-thirds of its people are of Palestinian origin, and most are in daily contact with relatives in the Israeli-occupied territories, who are now besieged in their homes. Egyptians have less emotional attachment to Palestine, but some analysts fear that the country's dire economic problems have sapped public confidence in the government to the point where one serious incident could spark widespread rioting.

To do Washington's bidding, and push for Palestinian concessions, would be politically suicidal for either leader. Moreover, Israel's systematic destruction of Palestinian institutions has broken the very tools with which Mr Arafat might have tried to impose the order Israel is demanding. But Arab options for putting pressure on Israel are also limited. So far, most Arab governments are choosing to raise the rhetorical temperature and to intensify pleas for American intervention. In Amman, several Jordanian cabinet ministers joined anti-Israeli marches in an act of self-preservation as much as of solidarity.

Other Arab leaders have suggested tougher action. Iraq called for Arab oil exporters to cut off supplies in protest. Gulf monarchies dismissed the call, but the mere whiff of an embargo was enough to lift oil prices to a six-month high. Syria, Israel's most intransigent Arab foe, has issued no threats itself, perhaps in recognition of the feeble state of its army. It has even started withdrawing its troops in Lebanon to the Syrian frontier. But Hizbullah, the Lebanese guerrilla group that is widely seen as a Syrian cat's paw, has pointedly raised the heat on Israel's northern border.

Two weeks ago, Hizbullah's leader gave warning that if Israel's suppression of the *intifada* crossed certain red lines, “all eventualities would open”. A sudden spate of pinprick attacks, including the machinegunning of an Israeli army post and the alleged firing of a Katyusha rocket, hinted at what he has in mind. With Lebanon's economy poised precariously on the brink of ruin, Hizbullah may not wish to alienate its countrymen by risking massive Israeli retaliation. Still, a major eruption on the Lebanese front has the potential to ignite a region-wide conflagration.

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Turkey and Israel

Even best friends are uneasy

Apr 4th 2002 | ANKARA
From The Economist print edition

Signs of unhappiness from Israel's military partner

THERE was disturbing news for Israel this week from Turkey, its best Muslim friend in the region. The news that the Turkish army had quietly signed a $660m deal with Israel to modernise its fleet of tanks coincided with Israel's latest invasion of the West Bank. It all proved too much for even the most pro-establishment Turks.

Tempers were made worse by the reports that four Turkish journalists in Ramallah had been detained, stripped naked and held for nearly two days by Israeli forces. Columnists of all ideological shades have protested at what Turkey's most influential newspaper, *Hurriyet*, called “Sharon's madness”.

Seizing a rare opportunity to score points, Turkey's pro-Islamic opposition parties are clamouring for all deals with Israel, including the tank project, to be scrapped. They have also demanded that Turkey's ambassador to Israel be recalled. Bulent Ecevit, the prime minister, has said no.

However, feeling the heat, Turkey's foreign minister, Ismail Cem, called on Israel to withdraw its forces from the West Bank. He declared that it was “not realistic to expect a [Palestinian]administration, which was humiliated and invaded, the leader of which has been isolated, to control terrorist factions.”

But Turkey can go only so far. Israel sells it top-grade weapons that western democracies, citing Turkey's poor human-rights record, will not. Moreover, friendship with Israel has translated into strong backing from America's pro-Israeli lobby, a big prize to forsake.

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America and the conflict

Zigzagging

Apr 4th 2002 | WASHINGTON, DC
From The Economist print edition

America's policy looks like muddled support for Israel. A fair judgment?

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EPA

Bush and Cheney find it all rather complicated

“STRATEGIC incoherence.” Thus Zbigniew Brzezinski, who helped negotiate Israel's peace treaty with Egypt, on the current administration's Middle Eastern policy. He has reasons for criticism.

Soon after America backed a UN Security Council resolution calling on Israel to withdraw from parts of the West Bank—an incursion that George Bush called “not helpful”—the president threw his support behind Ariel Sharon's far broader operation. Both the president and his secretary of state, Colin Powell, have held the trapped Palestinian leader personally responsible for the waves of suicide-bombings. Yet, at the same time, the administration continues to regard Mr Arafat as the legitimate leader of the Palestinians, and to insist that “the road to peace runs through Arafat”.

At a time when the region is descending into its worst violence for a decade, Mr Powell and Donald Rumsfeld, the defence secretary, have ruled out sending American peacekeepers (something that had previously seemed possible). And the administration has merely made polite noises about the Saudi peace plan endorsed by Arab leaders at their summit last week.

It is fair to say American policy has zigged and zagged over the past few weeks. But has it really been incoherent?

The administration has maintained its backing for a Palestinian state. It voted on March 12th for a Security Council resolution endorsing the idea of such a state. The administration also has a road map for getting to this goal: the Tenet plan for a ceasefire; the Mitchell plan to get from a ceasefire to negotiations. On April 4th, Mr Bush announced that he was sending Mr Powell to the region to revive the ceasefire bid. He reaffirmed his support for Israel's right to defend itself but, in more direct language than usual, called on the Israelis to stop the invasions, and start withdrawing from the cities they are occupying.

Obviously, the wider war on terrorism complicates this picture. For Mr Bush, “suicide-bombing in the name of religion is simple terror.” Given that view, America can hardly insist that “we will not be constrained in our actions against terrorists but Israel must be.” Instead, the administration is trying to balance its support for Israel's war against terror with its own support for what is left of the peace process. That means saying to Mr Arafat: you cannot wage a terrorist war and expect to reap political gains. And it means saying to Mr Sharon: you have the right of self-defence, but cannot ignore Palestinian aspirations.

These are fine distinctions, and the administration has wobbled when making them. But that is not the same as saying the policy is fundamentally incoherent.

What you could say, though, is that the administration has not so far been as involved in the region as it might have been, and that this has contributed to the violent spiral. The contrast is not just with Bill Clinton, who invested his time and prestige in the peace process that foundered at Camp David in 1999, but also with Mr Bush's father, who, in 1990-91, managed to drag the intransigent pair of Yitzhak Shamir

and Mr Arafat away from another bout of conflict into negotiations.

The president was conspicuously silent for three days after the Passover suicide-attack last week and Mr Sharon's subsequent invasion of West Bank cities. He has yet to talk to Mr Arafat. Mr Powell has made only two trips to the region, and one of those reluctantly. In contrast, Mr Bush senior's secretary of state visited Israel eight times in 18 months.

Even when the administration has got involved in the region, its actions have been determined by worries beyond Israel or Palestine. Last autumn, it began talking about a Palestinian state, and dispatched General Anthony Zinni to the region. That was when America was seeking Arab help against the Taliban. When the Taliban collapsed, Mr Zinni came home. The vice-president, Dick Cheney, visited the region, but only to rally support for action against Saddam Hussein. Until Mr Bush decides we have to get involved to end the conflict, says Martin Indyk, an ex-ambassador to Israel, nothing else matters.

So why hasn't he decided that? One possibility is that his administration is genuinely divided about what to do. Mr Cheney and Mr Rumsfeld have long been sceptical about Mr Arafat, and so are their main advisers. At the State Department, Mr Powell's advisers, William Burns, the assistant secretary for Near Eastern affairs, and Richard Haass, the head of planning, favour engagement—but their boss is more cautious. Result: too many cooks.

Another possibility is that American intervention would inevitably involve increasing pressure on Israel, which could spell trouble domestically. This is less because of the Jewish lobby than because Americans tend to support Mr Sharon's actions. The sharpest criticism of the president now comes from conservatives who argue that talking to Mr Arafat would violate his “doctrine”, which holds that states which sponsor terrorism should be confronted, not talked to.

Mr Bush could no doubt impose a policy and face down domestic criticism if he wanted to. But he has had two other reasons for circumspection. The first is Mr Clinton's failure at Camp David. Mr Bush reckons Mr Arafat was offered a good deal, and rejected it. Since then, the chances of either side accepting another such settlement have probably worsened.

Second, the administration has been less interested in the fate of Israel or Palestine than any of its predecessors. From the start, its priority has been Iraq. Even now, part of its concern is that the Middle East conflict will range Muslim states against America and complicate its attempt to get rid of Saddam. Paradoxically, this may eventually persuade the Bush administration to engage more fully in the region.

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Iraq and its fellow-Arabs

Kiss and make-up

Apr 4th 2002 | BEIRUT
From The Economist print edition

Iraq's very useful bargain

IT WAS hardly the stuff of romance, but the embrace between Saudi Arabia's crown prince, Abdullah, and Iraq's second-in-command, Ezzat Ibrahim, raised cheers from delegates to last week's Arab summit meeting in Beirut. The frost remaining from Iraq's 1990 invasion of Kuwait melted away—and American hopes of effecting “regime change” in Iraq slipped further over the horizon.

The bloody events of the intervening week should not obscure the significance of Iraq's Arab rehabilitation. The Beirut summit ended with a resolution committing Iraq to respect “the independence, sovereignty and territorial integrity” of Kuwait, something it has not done since declaring the emirate to be its own 19th province during the Gulf crisis. In exchange, the Iraqis got what they wanted: a categorical Arab rejection of any attack on them.

The following week, they got more. A meeting of the Organisation of the Islamic Conference, a group representing 57 countries and a fifth of humanity, resolved to oppose “any unilateral action taken against any Islamic country under the pretext of combating international terrorism”. And, to the surprise of many, Kuwait's government pronounced itself 100% satisfied with the Arab non-aggression pact, and called on its news editors to tone down anti-Iraqi commentary.

All this comes as a rude shock to the American administration. The vice-president, Dick Cheney, had recently toured the region to drum up support for dislodging Saddam Hussein's regime. The Arab deal would, at least theoretically, deny America the use of its extensive basing facilities in the Gulf for the purpose of hitting Iraq.

The Arab move to protect Iraq is not an expression of any liking for Mr Hussein. What it does show is compassion for Iraqis, and Arab anger over the Bush administration's reluctance to rein in Israel. In Beirut, Iraq's mute acquiescence in Crown Prince Abdullah's peace proposals—full Arab recognition for Israel in exchange for a full return of Arab land—marked a significant departure.

The speculation is that the Saudis persuaded Iraq to “recognise” Israel in exchange for greater Arab support. As it turns out, Mr Sharon's war has left Prince Abdullah's peace plan in tatters, but left Saddam Hussein holding a remarkably useful prize.

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Sex offenders

Passing the trash

Apr 4th 2002 | CHICAGO
From The Economist print edition

The Catholic church is not the only institution that needs to confront, and deal with, sexual crimes against children

SOME time around midnight on August 19th 1991, Mark Fry, a high-school history teacher in a wealthy Chicago suburb, was arrested on a student's roof. He was dressed in black, wearing a ski mask and carrying a can of Mace. School officials, fearful of bad publicity, did what many otherwise decent people do in such cases: they wrote glowing letters of recommendation for Mr Fry and sent him somewhere else. He became a high-school principal in Wisconsin, where he was arrested and convicted seven years later for molesting a student.

As the Roman Catholic church squirms in the spotlight over charges of sexual abuse of young people, that spotlight needs to be shone in some other corners. Sex offenders who prey on children go where children are, says Ernie Allen, president of the National Centre for Missing and Exploited Children. They teach in schools, coach sports teams, run scout troops and day-care centres. Charol Shakeshaft, a professor at Hofstra University and the author of a forthcoming book on sexual violence in schools, has found that 15% of pupils are sexually abused by a teacher or staff member between kindergarten and high-school graduation, and that up to 5% of teachers sexually abuse or harass students. A recent FBI child-pornography sting, Operation Candyman, nabbed a teacher, a teacher's assistant, a school bus driver and an athletics coach.

On April 15th, Baruch Lanner, an Orthodox rabbi, will go on trial in New Jersey for sexually abusing two teenage girls while he was the principal of a Jewish day school. Orthodox authorities stand accused of ignoring evidence that Rabbi Lanner sexually abused more than 20 teenage girls while he was in a position of authority in the Orthodox Union's National Conference of Synagogue Youth. In 1999, *Sports Illustrated* described American youth sports, in which millions of children are coached or supervised by unscreened male volunteers, as “a ready-made resource-pool for paedophiles”.

Why is it so hard to protect children? To begin with, adults are often looking for predators in the wrong places. Parents teach their children to fear strangers, yet abductions off the street are a small fraction of child sex-abuse cases. Counsellors and teachers are trained to recognise sexual abuse by family members. Yet a third group, so-called “acquaintance molesters”, is responsible for about 40% of sexual abuse cases—and a higher percentage of crimes against boys.

The victims are often reluctant to come forward. Acquaintance molesters identify vulnerable children and shower them with attention, affection and gifts. The victim is left feeling complicit, and his guilt and shame make it unlikely that the crime will be reported. Studies of sex offenders in jail have found that the average child molester has gained legitimate access to children, begun molesting by the age of 15, and abused nearly 120 victims, most of whom never report the crime.

When an allegation is made, the victim is often a troubled or delinquent young person. The accused adult, however, may be a pillar of the community—in many cases, because of his eagerness to do extra work with children. Communities desperately seek to convince themselves that a particular sex offender is different because of his other good deeds. “Adult human beings tend to believe what they need to believe, and the stronger the need, the stronger the tendency,” says Kenneth Lanning, a retired FBI behavioural analyst and an expert on the sexual victimisation of children. He points to a recent case in which 20 teachers testified in a trial on behalf of a convicted colleague, describing him—without irony—as a “child magnet”.

By and large, as Ms Shakeshaft points out, institutions protect the adults and not the children. At worst, fearing legal liability and damage to their reputations (and often prodded by lawyers and insurance companies), they come to a private settlement with the offender. “The first instinct is to get them out of your organisation,” says Mr Allen. As in the case of Mr Fry, the perpetrator is sent away with nothing but praise in the personnel file. Such cases are so common that educators have coined the term “passing the trash”. A 1995 study of 225 cases in which pupils were sexually abused by teachers or other staff members found that in only 1% of the cases did the school-district superintendent attempt to revoke the culprit's teaching licence.

That may be changing, in large part because the cost of covering up is rising. As cases of abuse receive more publicity, parents and victims have begun to win lawsuits against schools that either fail to sack teachers with a history of sexual abuse or ship known offenders elsewhere. Still, an awful lot of trash is being passed around.

What can be done? Any responsible institution ought to begin with a thorough background check of all potential volunteers or employees, checking their fingerprints against a national criminal database. Authorities should take note of seemingly innocuous past offences, Mr Lanning says, such as trespassing or disorderly conduct.

Second, every institution should have a system of management and supervision that limits the time any adult spends alone with a child. Listen to rumours, says Ms Shakeshaft. Although only 6-7% of victims report the abuse to someone in authority, most will tell their friends. “The kids tend to know,” she says.

Lastly, a mechanism is needed to deal with allegations of abuse, some of which will turn out to be false. Any proven case must be prosecuted to the fullest, says Mr Allen. School administrators often believe that a tenured teacher cannot be removed if there is not sufficient evidence to build a criminal case. In fact, the standard of evidence is lower, and staff can be sacked even if the case cannot be prosecuted.

Above all, parents have to teach their children to be alert, and must take note of adults who cross the moral boundary. Let them remember that the problem of adults abusing positions of trust and authority by preying on young people is not confined to the Catholic church.

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Newark's mayor

The good and the lucky

Apr 4th 2002 | NEWARK, NEW JERSEY
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Dirty tricks on the way to City Hall

AP

Is Booker really a Democrat?

SHARPE JAMES is not only a canny politician. He seems quite lucky, too. He has never lost a race, and is now standing for his fifth four-year term as mayor of Newark, New Jersey. And witness the calamities that have befallen his opponent, Cory Booker. Mr Booker seems far more likely than the average citizen to get a parking ticket. His campaign meetings seem unusually prone to being broken up by cops for minor violations. His telephone has been tapped—by mistake, says the telephone company. On the night of March 23rd a trailer belonging to his campaign was broken into, and some compact discs and a book of voter information were stolen. Poor Mr Booker, lucky Mr James.

The two candidates for the election on May 14th are both Democrats, both black, and could hardly be more different. Mr James, who is 66 and a caricature of a machine politician, made his name in the civil-rights era. One of the state's key power-brokers, he is well connected with property developers, and claims some of downtown Newark's shiny new developments among his achievements. (His campaign website promises a sports arena and a shopping mall.) He is unusually good at bringing state and federal money to Newark and, perhaps not coincidentally, he has the support of New Jersey's governor, James McGreevey.

But Mr Booker, 32 years old and a city councilman since 1998, notes that most of Newark's people are not sharing in the wealth. Away from its reviving centre, the city has poor schools, inadequate housing, a high rate of HIV and some of the worst crime in the country. Mr Booker lives in a city housing project, deliberately to draw attention to those left behind by Mr James's “renaissance”. Before that, he lived in a caravan (and, for ten days, in a tent) in various drug-blighted districts.

His background is not that of the typical inner-city advocate. Mr Booker grew up in an affluent New Jersey suburb, went to Stanford (where he excelled at football) and Oxford as a Rhodes scholar, and has a Yale law degree. Many wonder why he has chosen to go into politics in a place like Newark, when he could have taken some of the “ugly money” he says he has been offered to work in the private sector across the Hudson river in New York. He has the air of a large and excited schoolboy. He seems to have a messianic—some say naïve, given Newark's rough-and-tumble politics—vision of improving urban life.

Mr Booker says he will expand the police force to clear gangs away from streets close to schools, and will use a state supreme court decision to require the state to hand over more money for education in Newark. He wants to make it possible to pay traffic tickets and small fines over the Internet or the telephone, and wants to see more job-training and rehabilitation for criminals, rather than jail.

Complaining that 87% of the city's contracts go to firms outside Newark, he promises to keep more business within the city. Taxes can be cut, he says, if the tax-collection rate, a measly 83%, can be improved and wasteful procuring procedures streamlined. He is, in short, a bit of a policy wonk: an Al Gore with personality.

Stung, Mr James attacks Mr Booker as an outsider, neither knowing nor caring much about Newark and using the city as a mere stepping-stone to state or national politics. He has also accused him, improbably, of taking money from the Ku Klux Klan. Other sinister whispers going the rounds about Mr Booker are that he is really a white man, that he is secretly homosexual, that he is a front for sinister

Jewish interests and, horrors, he is even a Republican. Mr Booker claims that Mr James has called him “the faggot white boy”.

Of the insults, that of closet Republicanism may not be unfounded. Any politician hopeful of high office in Newark has to choose the Democratic label. Yet Mr Booker has spoken favourably of school vouchers, which infuriates the heavily Democratic teachers' unions. And his base of support is unusual. Perhaps two-thirds of his $1.5m in campaign funds comes from sources outside Newark, much of it from high-flying New Yorkers, and he counts Jack Kemp, Bill Bradley, Barbra Streisand and the Manhattan Institute, a free-market-favouring think-tank, among his supporters.

Despite Mr James's advantages—incumbency, and more money—the candidates are close in unofficial opinion polls. But Mr Booker still has to worry about his unusual bad luck. The residents of Newark should hope that a slashed tyre here, a phone-tap there and the odd run-in with over-zealous cops are the worst Mr Booker encounters before election day.

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Illegal workers

More vulnerable

Apr 4th 2002 | NEW YORK
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Labour laws don't cover everyone

WHEN Jose Castro helped to organise a trade-union campaign at his workplace, Hoffman Plastic Compounds in California, he was fired. His firing was found to be unlawful, but on March 27th the Supreme Court ruled that he could not receive back pay. The reason: Mr Castro is a Mexican, who is in the United States illegally and who used a friend's ID to get his job.

His case raised the question of the rights of people who are not lawfully residents. The court, which divided five to four on the ruling, was clearly in some confusion, as is the country at large. Under a Supreme Court ruling, children of illegal aliens may attend public schools. Most states provide illegal aliens with emergency medical care and insist that they get their vaccinations. They may not give them extra social assistance. People working illegally in America must pay taxes, but cannot receive a refund for overpayment; they must contribute to Social Security (the national pension), but cannot receive retirement benefits. Depending on state law, they can vote in local elections (such as those for school boards), but not national ones.

Labour laws used to cover everyone, even those people not legally permitted to work. Trade unions provided strong support, preferring immigrants to swell their ranks rather than provide cheap competition. In 1986, hiring undocumented workers was made illegal. But employers resisted becoming, in effect, immigration agents, and the law was little enforced.

The National Labour Relations Board, which supported Mr Castro, has continued to allow undocumented workers to get back-pay if they are fired. But the Supreme Court jibbed in Mr Castro's case, saying he had in any case got his job through a criminal fraud, and should not be paid wages he could not legally have earned. Chief Justice William Rehnquist added that this would only encourage violation of the immigration laws.

Writing for the minority, Justice Stephen Breyer argued that stripping labour-law protection from illegal aliens would not only undermine America's domestic labour law but would lower the cost of illegal labour, drawing more hopefuls in. Whatever happens, it is certain that America's non-citizens are now more vulnerable than they were.

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The Green Berets

Good men needed

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The army's cutting edge sharpens up

AP

All right, who wants to volunteer?

WHY join the army, when these days all the action is in the special forces? Until recently, that question had a good answer: because there was no way round it. All Green Berets—the army's special forces, roughly 9,000 strong—had to do time in run-of-the-mill units before they could even apply to join the elite.

Times have changed. This year special-forces recruiters, reviving a system discontinued in 1988, have gone out into America to look for 400 good men, husky high-school athletes and the like, to sign up directly into the Green Berets. The hardy few who survive two years of the corps' brutal training need not bother with the regular army first.

The new recruits are badly needed. The manpower of the special forces was slashed after the Vietnam war, when these units took some bad knocks. Now special operations (which can involve both Green Berets and commando units from other services) are back in demand. With work to be done round the world, the Green Berets are seriously overstretched. And as a heavily white group, they need a bit of racial diversity, too.

The change makes some old-timers bristle. “By recruiting right off the street, you start to put quantity in front of quality,” says General David Grange, who has served in both the Green Berets and the superstar Delta Force (which pulls in members of all the services). He argues that the necessary front-line qualities—mutual trust, a steady finger on the trigger, and so on—do not come easily to newcomers.

But there was little choice. Not only have the special forces got more work to do, but the pool of potential recruits in the regular army has been drying up. When the cold war ended, the army had some 2m soldiers on active duty; now there are only 1.4m. Many men took advantage of an early-retirement scheme a decade ago. And now a high attrition rate—13.6% of all recruits last year did not even finish basic training, and many more drop out before their first four-year term is up—has increased the pressure.

Even the lower post-cold-war recruiting targets have proved hard to hit. All services except the marines—the smallest of the five, with a well-earned tough-guy reputation—have to scramble to find enough men. The 1990s boom, when recruiters competed head-on with the private sector of the economy, was the

hardest. The struggle continues. Although recruiters' telephones rang madly after September 11th (especially the marines'), there has been no real leap in enlistments.

So out come the familiar techniques for stimulating the market. Military advertising budgets have risen sharply: in 2001 the army spent $145m on self-promotion, up from $33m in 1993. The navy's budget jumped by 76% from 1997 to 2001. In January last year the army packed away its 20-year-old slogan, “Be all that you can be”, and trotted out instead the catchy, if controversial, “Army of One”. The army's website, goarmy.com, was overhauled; several dozen cyber-recruiters now chat up potential fighters online.

Morale is on the rise. After eight years of peacekeeping drudgery under Bill Clinton, the armed forces have a hawkish president and wars to fight. The pay rises promised in the new defence budget will also help. To be sure, Charles Moskos, a sharp observer of military affairs, points out that the budget makes no provision for more manpower. But the way things are going, that could change as well.

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The three-strikes law

A handful of tapes, 50 years

Apr 4th 2002 | SAN FRANCISCO
From The Economist print edition

Another look at America's harshest compulsory-sentencing law

THE crimes were almost farcically inept. The goods—video cassettes in one case, three golf clubs in the other—were stuffed down the shoplifters' trousers. Both men were caught by shop assistants as soon as they hobbled outside. The sentences they received, however, were Draconian: 50-years-to-life for Leandro Andrade, the video thief, and 25-to-life for Gary Ewing, the golfer. The discrepancy between crimes and punishments has drawn the attention of the Supreme Court, which is going to look at their cases.

The men's sentences were passed under California's “three-strikes” law, which imposes a compulsory sentence of 25-years-to-life for a third conviction for a felony. The law was the fruit of a 1994 ballot initiative inspired, in part, by the murder of a girl by a repeat-offender who was on parole. Twenty-four other states and the federal government have such laws, but California's is the harshest and by far the most often used. Currently, more than 7,000 offenders are in jail for commiting a third strike. The Supreme Court will now consider whether the men's sentences violate the constitution's ban on “cruel and unusual” punishment.

Two oddities of Californian law have contributed to the severity of Mr Andrade's treatment. The first is that its three-strikes law is not limited to violent crimes. Property felonies, such as burglary, can count as strikes. The second is a separate law that upgrades misdemeanours—petty crimes that would not normally count as a strike—into felonies if the defendant has a record of property convictions.

This leads to anomalies. The two thefts of videotapes, worth a total of $153.54, for which Mr Andrade earned his double third-strike sentence, counted as strikes only because he had two earlier convictions for burglaries that bumped them up from misdemeanours to felonies. If his earlier crimes had been violent but had not involved thefts of property, his video thefts would have been treated as misdemeanours. Nor would he have been clobbered for three strikes if he had pinched the videos first, and done his burglaries later.

The Supreme Court must decide whether it agrees with the Ninth Circuit court in San Francisco, which heard Mr Andrade's appeal, that his sentence was “grossly disproportionate” to his crime. Although it will rule only on the peculiarities of California's law, and not on three-strikes laws in general, the court's decision will be watched by politicians. The effect of three-strikes laws is hard to gauge, but one California study found that only about 10% of crimes were committed by offenders eligible for the tougher sentences. Those offenders, with a criminal record behind them, were also older than average, so the chief effect of three-strikes has been to make the jail population older and to keep offenders in jail—with all the attendant expense—for much longer, well past their years of peak criminal activity.

Three-strikes is only one of a range of laws, introduced by legislators wishing to look tough on crime, that reduce judges' discretion in sentencing. The court has a chance in this case to reclaim judicial authority. But the present justices have been reluctant, so far, to interfere with the power of states to set punishments.

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Pollution

At war with a lead-smelter

Apr 4th 2002 | HERCULANEUM, MISSOURI
From The Economist print edition

Worried? Eat more ice cream

AP

THE small town of Herculaneum, 30 miles or so south of St Louis, is dominated not by a mountain called Vesuvius but by the Doe Run lead-smelter, the largest in America. The smelter has been there since 1892, and has been the subject of fierce criticism from both state and federal environmental regulators over the past 20 years. In 1991 the company was compelled to replace the topsoil in the gardens of about 90 houses near the plant, and in 2001 a study found that 24% of children under six who lived within a mile of the plant had dangerously high levels of lead in their blood.

Doe Run agreed to clean up the site and prevent further contamination. But last autumn samples of dust taken from a road used by the plant's trucks found lead levels as high as 300,000 parts per million. The company and the government propose temporarily moving people who live in the most contaminated areas, replacing the topsoil in their gardens and cleaning the interiors of their houses of lead dust. The company is now in the process of installing new pollution-control devices. Earlier this week Doe Run announced that, for the first time, it had made it through a quarter in full compliance with federal air regulations.

The state has put up signs warning residents not to let their children play outside, and advising them to wash their faces and hands before eating, drinking or sleeping. For its part, the federal government has offered tips on how to fight lead poisoning by eating more ice cream, whole-grain bread, liver and eggs, and by avoiding either hot or iced tea. Many of Herculaneum's residents think this is merely adding insult to injury. They want the federal government to buy the whole town, using money from the Superfund set up for such purposes, and then clean it up.

Officials of the Environmental Protection Agency reply that adding Herculaneum to the list of places asking for a buy-out will only delay a solution. Too many lead-stricken sites around the country, including others in Missouri, have languished for years on the list. But people in Herculaneum are still pressing their case.

At the end of March, the state and Doe Run announced a deal for the immediate buy-out of 26 families with children up to six years old and living within half a mile of the plant, and the eventual buy-out of 134 homes within the same area. The buy-outs will be voluntary, and will not delay the existing clean-up project in the rest of the town.

A few problems remain. First, two schools lie within the half-mile zone. Should these be shut down? Second, there is no guarantee that the company will give home-owners anything more than fair market value for their houses—practically nothing, in other words. The residents want pre-contamination prices. Third, the plan does nothing for the rest of Herculaneum, which is contaminated to a lesser but still serious degree. The state has hinted that it may order the plant to close.

Herculaneum is not Doe Run's only problem. The Forest Service recently granted the company's request to drill more than 200 test bores in the Mark Twain National Forest, not far from Herculaneum. The permits will almost certainly be opposed in court, and the fight over lead may well go on for decades.

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Lexington

No schmooze with the Jews

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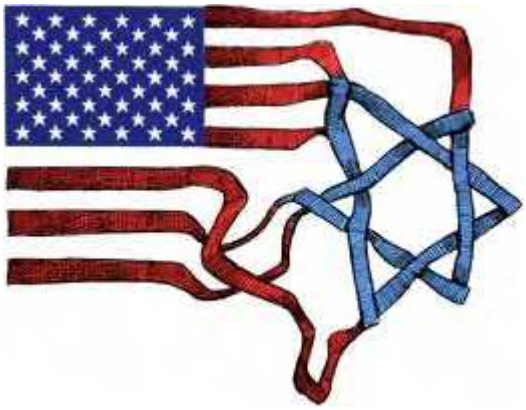
However entwined the sentiments, the national interest comes first



FORGET about infirmity of purpose. The most troubling criticism of America's Middle East policy is that it is driven not by national interest but by a domestic lobby—the Jewish lobby. This criticism is an article of faith in the Arab world. It has been whispered in European chancelleries for years. Now a respectable American pundit, Michael Lind, has tried to detail the case in a respectable British magazine, *Prospect*.

Does the argument hold water? Without question, the Jewish lobby is enormously influential in the United States. The American Israel Public Affairs Committee (AIPAC) is a legend among lobbyists, a phenomenon when it comes to lining up senators, orchestrating public opinion and arranging junkets to Israel for impressionable politicians.

The Jews are not alone in lobbying for their ethnic interests: everybody does it. Nor are they alone in occasionally allowing ethnic loyalties to trump the national interest. But the Jewish lobby is nevertheless unusual in several respects. It allows Jews to exercise an influence out of all proportion to their mere 2% of the population. It is unusually focused on foreign affairs—and particularly on providing Israel with the military might which it needs to survive. It also has an enormous number of allies in the media and in politics.

A striking proportion of America's leading pundits are Jewish. Three of the most prominent foreign-policy hawks in the current administration, Paul Wolfowitz, Richard Perle and Douglas Feith, are Jewish; so is the most prominent hawk among the Capitol Hill Democrats, Joe Lieberman.

America is also far more pro-Israeli than Europe. Israel receives more of America's foreign aid budget than any other country—$3 billion a year, two-thirds of it in military grants. This has allowed Israel to turn itself into a muscle-bound colossus. In 1967, Israel's defence spending was less than half the combined defence expenditure of Egypt, Iraq, Jordan and Syria. Today, it is 30% higher than the combined defence spending of those states.

But does the Jewish lobby, well-connected as it may be, really explain America's support for Israel? The lobby may do its bit. But it would be powerless if America did not have such strong cultural affinities with Israel. Americans have a marked tendency to see foreign policy in moralistic terms—as a battle of good against evil or western values against barbarism. Europeans may see the Middle East as a matter of managing rival interests (and assuaging colonial guilt). Americans tend to see it as a matter of defending an island of freedom and democracy from a ravening crowd of kleptocrats and tyrants—and, since September 11th, in terms of allies and enemies in America's war against global terrorism.

Many Evangelical Christians are also passionately pro-Israel. Some of the strongest support for Israel comes from Bible-belt states, such as Alabama and Mississippi, that have few kosher restaurants. Evangelical preachers such as Pat Robertson pull off the extraordinary feat of being both anti-Semitic and passionately pro-Israel. Bestseller lists are full of apocalyptic tracts about the end of the world and the return of the Jews to Israel. A group of Pentecostal Christians in Mississippi breed red heifers for sacrifice in Israel when the Second Coming reclaims Jerusalem's Temple Mount from the Muslims.

A Texan in Israel

What about the charge that the Jewish lobby is “distorting” American foreign policy, by persuading governments to put ethnic interests before national ones? Not likely. All American presidents have happily crushed the Jewish lobby whenever they think the national interest demands it.

Ronald Reagan, a pro-Israeli president, sold AWACS aircraft to Saudi Arabia over strong objections from AIPAC. He was so infuriated by Israel's invasion of Lebanon that he put a picture of a Palestinian child on his desk. In 1991 George Bush senior brushed aside AIPAC's objections when America threatened to withhold loan guarantees if Israel continued to expand its settlements in the occupied territories. Successive American administrations have declared Jewish settlements in the territories illegal and counterproductive. AIPAC, like all ethnic pressure groups, is good at getting its way on things that presidents don't much care about. But when it tries to butt its head against issues of national interest, it ends up with a headache.

The current administration is a particularly odd candidate for the role of cat's-paw to the Jewish lobby. Jews are the only group of rich white people who habitually vote Democratic—and many of the Jewish commentators who are credited with such influence over American policy would rather dress up in a Ku Klux Klan outfit than endorse the current president.

The Jewish lobby has a particularly testy relationship with the Bush dynasty. Jewish organisations regarded George Bush senior as the most anti-Israeli president in recent years—a man who saw the Middle East in terms of oil supplies rather than Israel's destiny. James Baker, the elder Bush's secretary of state, is credited with a memorable line on the Jewish lobby: “Fuck the Jews. They don't vote for us anyway.”

The current president is certainly more sympathetic to Israel than his father. During a trip to Israel a few years ago he was shocked to learn that Israel had once been only nine miles wide: “In Texas, some of our driveways are longer than that.” But sympathy does not reduce him to a puppet of a domestic lobby. Is Mr Bush giving in to the Israeli lobby when he urges Israel to deal with Mr Arafat, or when he argues that the Palestinians have legitimate grievances? And, in the midst of a war on terror, is America acting against its national interest when it stands behind a country that is trying to tear up terrorist networks—and that, in a daring strike back in 1981, destroyed Saddam Hussein's earlier efforts to build an atomic bomb?

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Costa Rica's election

The challenge to paternalism

Apr 4th 2002 | SAN JOSE
From The Economist print edition

Two of Latin America's smaller but more successful countries face pressure to change. We report first on Costa Rica's election, and then on Uruguay's woes

THE campaign for Sunday's presidential election has centred on personalities and peccadillos, with scarcely any discussion of the main issue: how much longer can Costa Rica afford to be different? Standing out from its impoverished neighbours in the turbulent Central American isthmus, Costa Rica has been a small haven of egalitarian, democratic tranquillity since a 1948-49 revolution which abolished the army, assigned the defence budget to education, and created a powerful, paternalist state. Though not a rich country, life expectancy in Costa Rica (at nearly 77 years) is not only the highest in Latin America but higher than Denmark's.

After defaulting on its debt in 1982, Costa Rica began cautious free-market reforms. But the issue facing the country now is how to sustain a European-style welfare state on a Latin American tax base. Tax revenues total just 12% of GDP, while public debt has grown to almost $9 billion, or 55% of GDP. “We spend like we're rich but pay taxes like paupers,” says Eduardo Lizano, the president of the central bank. “It has to end soon but it will be painful.”

That may be why the candidates have not wanted to debate this issue. Nor, apparently, do the voters. When Miguel Angel Rodriguez, the outgoing president, tried to open up the state telecoms and energy monopolies to private competition, he triggered the biggest street protests since the revolution.

Mr Rodriguez did succeed in opening up the economy to foreign competition, signing free-trade deals with Mexico and Canada. Skilled workers and political stability have attracted foreign investment, such as an Intel silicon-chip factory (the only plant of its kind in Latin America), and a pharmaceutical plant. Such investments have stimulated clusters of high-tech local firms. They helped turn Costa Rica into an export powerhouse, and fuelled economic growth that averaged 5.6% a year in the 1990s.

The president's critics say that this has created a two-speed economy. Many Costa Ricans work in traditional industries, such as bananas, coffee and other sorts of farming. These are struggling. On the one hand, the government has withdrawn subsidies. On the other, businessmen say that expensive state-run services such as electricity and telecoms undermine their competitiveness. In a country of 4m, there is a waiting list of 100,000 for a mobile-phone number, and only one Internet service provider. The government's debt keeps interest rates high. “Think of the country as an aircraft with two engines. The private-sector engine works but the public-sector one does not,” says Samuel Yankelewitz, a businessman.

The private engine may work, but many voters suspect that privatisation leads to corruption. Such fears were strengthened by claims that the state power distributor has overpaid private electricity generators, some of them owned by politicians. Such scandals are breeding disillusion with the two parties that have alternated in power since the revolution, the social-democratic National Liberation Party (PLN) and centre-right Social Christian Unity Party (PUSC). In the election's first round in February, Otton Solis, a defector from the PLN who has formed a new party, grabbed 26% of the vote, forcing the two main parties into a run-off for the first time. Mr Solis campaigned against corruption, and for protectionism. In another sign of public disaffection with politics, only 69% of voters went to the polls, the lowest turnout since 1958.

Opinion polls suggest the run-off will be won by Abel Pacheco of the ruling PUSC. But Mr Pacheco, a psychiatrist who hosts a television show, is himself something of an outsider: he won his party's nomination against the opposition of its bosses. He says he wants Costa Rica to follow the Netherlands, combining economic efficiency and high social spending.

Whoever wins will lack a majority in Congress, in which the grip of the two traditional parties has been challenged not just by Mr Solis (who will hold the balance of power) but also by a free-market party (which captured six of the 57 seats). So Costa Rica looks set to muddle on.

The new president's first decision will be whether to endorse a report by a group of former finance ministers which is expected to call for tax reforms, including the introduction of VAT, to cut the fiscal deficit from 2.9% of GDP to zero over five years. But economic reform may need to be preceded by political reform: the constitution bans presidents and congressmen alike from running for a second term, giving little accountability and every reason to take money and run. When Oscar Arias, a successful president of the 1980s, organised and won a referendum to allow him to run again, the party leaders united to thwart this.

Even so, Costa Rica remains a success story, attracting some 300,000 migrants from Nicaragua, its poorer neighbour, for example. And its difficulties, such as how to pay for pensions and social entitlements, resemble those of the developed world. They are problems that many of its neighbours would welcome.

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Uruguay's economy

Semi-divorced

Apr 4th 2002 | SAO PAULO
From The Economist print edition

Avoiding Argentina's way

SOMETIMES a reputation for stability pays dividends. Although Argentina has yet to persuade the IMF to ride to its rescue, Uruguay has swiftly secured the Fund's help as it struggles with the damage caused by its neighbour's economic implosion. On March 25th, the IMF approved loans totalling $930m, which Uruguay hopes will allow it to join Brazil and Chile in the club of South American countries that have detached themselves from Argentina's woes (see chart).

If it manages this, Uruguay can thank what Horst Köhler, the IMF's managing director, called its “energetic response” to its financial problems. In February, after Uruguay lost its investment-grade credit rating (meaning that it has to pay more to borrow), President Jorge Batlle persuaded Congress to pass emergency measures including spending cuts and new taxes on everything from fruit to telephone calls. The aim: to cut the budget deficit from 4.2% of GDP last year, to 2.5% this year and to zero by 2004.

The government has also promised the IMF other reforms, such as broadening the tax base, cutting state pension funds' deficits, ending state monopolies in energy and telecoms, and inviting private companies to run roads and airports. The loss-making state mortgage bank will end subsidised loans and be restructured.

Much of this is unpopular. Thanks to a generous welfare state, Uruguay is one of Latin America's most egalitarian and best-educated countries, but it is also resistant to change. The left-wing opposition is threatening to call referendums (as the constitution allows) to halt reforms of state companies. Tax rises and controls on public-sector pay will hurt many ordinary Uruguayans, who have already suffered more than three years of recession.

But the reforms are probably the minimum that needs to be done to stop the country being sucked down with Argentina. Because most of Uruguay's public debt is in dollars, a prolonged slide in the value of its currency has almost doubled the debt since 1998, to 52% of GDP. Even with the new austerity measures, the government expects further currency weakness to lift the debt to 65% of GDP by 2004, by when it hopes this ratio will start falling. Some economists fear that the government's estimates of tax revenues are too optimistic: they predict more spending cuts will be needed later this year.

The government has won plaudits from the IMF for the firm way in which it has handled the problems of Uruguay's banks. Last year, many Argentines who correctly predicted their country's devaluation crossed the River Plate to deposit money. With Argentines now facing cash shortages, some of those deposits are being withdrawn. When these withdrawals caused problems for two banks, one was shut and the other recapitalised. Provided the pressure on deposits does not turn into a stampede, the other banks should be able to cope.

An outbreak of foot-and-mouth disease, which halted Uruguay's meat exports, has been vanquished. A weaker currency helps exporters. So Uruguay's economy stands a chance of recovering. What seems less likely is that the government will stick to its reform promises. To head off opposition protests, Mr Batlle is already talking about diluting a plan to bring private capital into the state telecoms enterprise. In its tough new mood, is the IMF going to walk away if he does?

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Politics in Venezuela

Land war

Apr 4th 2002 | SANTA BARBARA, VENEZUELA
From The Economist print edition

An ill-judged reform prompts bloodshed in the countryside

Get article background

SIXTY years ago, Angel Moran's parents arrived at Santa Barbara, on a river south of Lake Maracaibo, by canoe. Mr Moran, now aged 71, built their original smallholding into a cattle ranch of 1,130-hectares (2,790 acres), clearing some of the land himself with an axe. “The mosquitoes were so thick they killed the chickens,” he says. A few years ago, he split the land among his children. But last September, President Hugo Chavez's government, having given Enrique, one of Mr Moran's sons, 48 hours to vacate 160 hectares of his 388-hectare farm, divided this land up among ten landless families.

On coming to power in 1999 and launching his “Bolivarian revolution”, Mr Chavez promised a radical land reform. In November he issued a decree aimed at speeding this up. It has landowners up in arms—literally. In January, a peasant leader was shot at his home. Hours before, Jose Huerta, a communist agronomist who had helped draft the land decree, had been shot by gunmen in Maracaibo, barely surviving. In all, supporters of Mr Chavez blame ranchers for more than 40 killings in the past three years, though others put the figure much lower.

It is no coincidence that the new wave of rural violence is centred on the area south of Lake Maracaibo. It is the site of Venezuela's richest farmlands and the source of most of its meat and dairy production—and of its most powerful commercial farmers.

The peasants who have been given land at Santa Barbara have put up tin shacks, and plan to grow corn, cacao, yucca, plantain and fruit on what was previously grazing land. They see the government's action as a victory in a long battle. In the 1960s, they say, the government reclaimed marshland for redistribution, but the landowners took it over, by moving their fences. Only now, says one of them, is there a government prepared to stand up for the peasant farmer.

The government says too much land is in too few hands. Certainly, land ownership in Venezuela, as in much of Latin America, is unequal. Just 1% of farms account for 46% of total farmland. But only 12% of the population is rural: most peasants left the land years ago to seek jobs in the oil industry or the cities. Remarkably, the government has no estimate of the number of landless would-be farmers. But such is the labour shortage south of Lake Maracaibo that most farmhands are migrants from Colombia.

Rather than a solution to a social problem, the land reform looks like an attempt by Mr Chavez to punish his opponents and reward his followers. Many of the new settlers at Santa Barbara were previously town-dwellers, working as taxi-drivers or mechanics. Mr Huerta admits that about 60% of the members of land committees are from towns, some from the shanties around Maracaibo. Mr Chavez's dream is to empty the shanties by resettling the unemployed on rural plots. But officials admit that many of those trying to acquire land are doing so in order to sell it—something the new law prohibits.

The ranchers deny any part in the killings, though they express little regret at them. On one point, they agree with Mr Huerta: if nothing is done, the situation will get worse. Ruben Dario Barboza, of the local ranchers' federation, says his group wants talks with the government. But some ranchers will defend themselves, he adds. “They're not going to let some johnny-come-lately take what cost them years of

sweat and blood.” And if there is no dialogue? “Then we're going to war. Blood will inevitably flow.”

Peasant leaders say they will respond in kind. Pamphlets have appeared, signed by a group calling itself the Bolivarian Liberation Forces, threatening that, “not a single comrade's death will go unpunished.” The peasant settlers say they just want to work the land in peace.

The danger is of a Colombian-style war between landowner vigilantes and incipient guerrillas. But there is an obvious solution. The state owns much unused land, including 2,000 hectares near Santa Barbara. Clearing and developing it would require hard work and government investment in infrastructure. But unlike Mr Chavez's present policy, a genuine land-settlement programme might create a prosperous and peaceful countryside.

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Crime in Mexico

A breath of air

Apr 4th 2002 | CIUDAD JUAREZ
From The Economist print edition

A bungled investigation sparks a battle for truth

AP

Challenging the official line

SO FAR, the count stands at 76 murders in nine years. The victims are women and girls, most of them poor, who disappear on their way to work or school in Ciudad Juarez, a sprawling industrial city on Mexico's northern border. They are later found raped, strangled and, in some cases, mutilated.

The authorities claimed two years ago, after the arrest of several local bus drivers, that they had solved these serial killings. In November, however, the police found eight more bodies. Within 72 hours, two more drivers were arrested. But few in Ciudad Juarez believe the murders will stop. “Nobody thinks they are guilty,” says Celia de la Rosa, the mother of one of the victims.

The arrests seemed to show police desperation—or something more sinister. A prison doctor found that the suspects had been burned during their interrogations, on torsos, legs and genitals, apparently with an electric cattle-prod. The government witness who placed the men at the scene cannot be found. In February, police chased and killed the suspects' lawyer (who had denounced their torture) as he was driving home one night. The chief forensic investigator resigned after finding no physical evidence linking the suspects to the killings.

Forensic experts say the killings are committed by a group, rather than one person. Some local residents believe they are the work of a Satanic cult performing human sacrifice, others that the victims are used in black-market snuff films. The most common theory, however, is that the murders are connected to the city's powerful drug mob. The police handling of the case suggests not incompetence but a cover-up, the theory goes, and only drug mobsters can act with such impunity.

There are two gleams of hope. Public anger at the official bungling of the murders has at last overflowed. And cracks are appearing among the authorities. The head of the local prison resigned rather than endorse the story that the burns on the latest suspects had been self-inflicted. The forensic investigator is continuing to work on the case independently. In times past, corruption and fear would have meant that the official story stood unquestioned. Perhaps the fresh air of Mexico's democratic transition is reaching even the dirty streets of Juarez. If so, it is not before time.

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Pakistan

General election

Apr 4th 2002 | LAHORE
From The Economist print edition

General Pervez Musharraf hopes to consolidate his power by calling a referendum to endorse his presidency

Get article background

PAKISTAN'S cabinet surprised no one this week by voting unanimously in favour of holding a referendum that would confirm General Pervez Musharraf as president for the next five years, an office to which he appointed himself last June.

The fact that under Pakistan's constitution the president should be elected by a college consisting of the members of the national and the four provincial parliaments, rather than via a take-it-or-leave-it referendum, seems to have bothered neither the general nor the cabinet he picked. As an absolute dictator, he has decreed constitutional amendments in the past and will surely do so again should the need arise.

The general takes a win for granted. He told newspaper editors last week that 90% of the political parties and other groups he had consulted before reaching his decision support him, as do every one of the country's powerful army corps commanders. Foreign powers, he reckons, also back him to the hilt.

He is certainly correct about the support of foreign powers, at least as far as America is concerned. The general's position as loyal ally in the fight against global terror was further cemented this week with the arrest in Pakistan of Abu Zubaydah, thought to be the third-ranking member of the al-Qaeda group. The arrest was carried out by Pakistani officers working alongside a team of FBI agents, who have been allowed a remarkable degree of freedom to operate in Pakistan. It is particularly welcome, since the rest of the al-Qaeda leadership has so far proved elusive.

But whatever the Americans may think, there is considerable criticism in Pakistan of the general's latest ploy. Those who do not support the referendum, and have even threatened to boycott or oppose it, include the two main political parties (the People's Party led by Benazir Bhutto and the Pakistan Muslim League of Nawaz Sharif, both former prime ministers), a six-strong group of the country's leading religious parties and organisations, and all major associations of lawyers and students. How on earth, then, does the general hope to win it?

A bit of history may be in order. In 1984, another military usurper, General Zia ul Haq, resorted to a referendum to install himself as president. He did it by telling the people he wanted to establish an Islamic system of government and asking them whether they were for or against Islam. Since Pakistanis, who are almost all Muslims, could hardly say they were not for Islam, most stayed home rather than vote against him. In the event he claimed a 95% Yes vote for himself. Independent observers said the turnout was barely 10%, but he claimed it was much higher, and took it as the endorsement he needed.

General Musharraf has a few tricks of his own prepared. He intends to frame a preamble to the question of whether or not the voters want him to be president for five more years. This will include a list of his government's achievements to date, including his “power devolution” programme in which nearly 200,000 local mayors were enthusiastically elected to various tiers of local government recently. It will also list his stern anti-sectarian and anti-terrorist measures, for which there is considerable support. If the people approve of these things and want more of them, they will be advised, they should vote for him.

In the approach to the vote, probably in May, only “constructive” criticism will be allowed by political parties that wish to oppose his plans. They will not be permitted to hold raucous public meetings denouncing the move and telling people not to vote. Slush funds are likely to be directed to recently elected pro-Musharraf mayors to encourage them to ensure a good turnout. Voting booths will be established in every nook and corner of the country by the armed forces, and anyone over 18 will be allowed to vote—wherever he or she likes, without the bother of producing an identity card. All this will be overseen by a committee of senior military-intelligence officers and civil servants.

Were any other options available to the general? He does not think so, probably rightly. If, after the elections still due in October, he had asked the new parliaments to elect him president, there was no guarantee that they would. Indeed, the possibility of revolt was high since the two main parties, with or without his enemies Miss Bhutto and Mr Sharif, might well have joined hands to thwart or even impeach him. Now he can become a president with a veneer of legitimacy, and then amend the constitution before the parliamentary election so that he can retain the upper hand over the next parliament and the elected prime minister.

This is to be done by means of a supra-cabinet body called the National Security Council in which he, as president, will preside over meetings attended by the prime minister and four of his cabinet colleagues, plus the president's nominees. These will include the four provincial governors, the chiefs of the air force and navy, the deputy chief of the army and the chairman of the joint chiefs of staff.

It is a neat plan. But so were similar plans by General Ayub Khan in 1960 and General Zia in 1984. Both ruled for over a decade, with the approval of the United States, but neither acquired true legitimacy in the eyes of the people and both were reviled after they departed. The political systems that they foisted on Pakistan did not survive their exit: Pakistanis went back to unbridled civilian democracy both times. Whether they are now ready to accord a formal political role to the national armed forces, with once again another general at the apex of political power, remains to be seen.

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Afghanistan

Coming home

Apr 4th 2002 | JALALABAD AND KABUL
From The Economist print edition

At last, signs of hope

AP

Take me to your warlord

Get article background

DOZENS of brightly-painted trucks cross the border every hour, with women and children perched precariously on top of beds and household goods, and livestock attached further down. The pace at which displaced Afghans are moving back from Pakistan to their old homes—about 150,000 have returned since the beginning of March—has astonished the United Nations. It is the strongest sign that the country is at last on the mend. As well as poor families, carpet and antiques sellers are heading back to Kabul from the Pakistani frontier town of Peshawar. Their sensitive antennae tell them that business in Afghanistan will now grow rapidly.

Meanwhile an official residence in Kabul has been made ready for the imminent return of one particularly distinguished refugee: Zahir Shah, the 87-year-old former monarch who has spent the past 29 years in Rome. Planning is also in high gear for the 1,450-strong *loya jirga* or tribal assembly that the ex-king is due to open in June.

The UN-appointed commission that is charged with preparing the assembly has announced that 160 places will be set aside for women, and only six for “religious personalities”. In an even bolder break with recent practice, it has been stated that people with a history of involvement with drug-smuggling, war crimes and terrorism may not attend.

What, then, prevents Afghanistan from living happily ever after, with a generous dose of aid and a degree of international protection in the form of the International Security Assistance Force, which at present comprises about 4,500 soldiers from 18 countries? One cloud on the horizon is the fact that four months after being ousted from power, the Taliban movement—and its allies in the al-Qaeda terrorist network—are not yet dead as a military force. As troops from Britain began arriving this week for what has been billed as the country's biggest combat operation in a decade, British officers issued a warning that the ultra-Islamic coalition was regrouping and planning fresh attacks.

America's armed forces have been heavily engaged in anti-Taliban operations and ambivalent about the separate business of building a new, ethnically-diverse state. Now, as the British army gets more involved with fighting the Taliban, it wants to abandon its leadership of the international force (in which its troops could be an easy target for revenge) in favour of Turkey, which has reluctantly, and provisionally, accepted the role.

The Turks have good reason to hesitate. Peacekeeping, however defined, may be an easier job than fighting the Islamists, but holding the ring between the various non-Taliban parties is far from simple. Already the commanders of the international force, deployed only in the capital, have been extra-careful to limit their responsibilities. For example, they have made it clear that they cannot be responsible for the safety of the ex-king (whose arrival has already been postponed several times because of fears of an attack). And they played no part in a series of arrests this week, in which the government seized as many as 300 people who it claimed were part of a conspiracy to overthrow it.

The biggest challenge for the international force will be maintaining the equilibrium between the Tajik-dominated Northern Alliance, whose unpaid fighters are still camped out around Kabul, and the Pushtuns

who, as the largest ethnic group, will want a bigger slice of power as efforts to form a new government gather pace. The current interim administration is headed by a Pushtun, Hamid Karzai, but dominated by Tajiks, including the defence minister, Mohammed Fahim, a powerful figure in his own right. So far the government is just about holding together, but the Pushtuns are deeply suspicious of Mr Fahim and his men.

Outsiders with a benign interest in Afghanistan—including the UN, and two American congressmen who visited last month—have called for the international force to be increased in size, and deployed in half a dozen provincial cities, as a virtual precondition for the holding of a free and fair *loya jirga*. But some of the Tajik warlords who enjoy power on the ground—more than their 20% share of the population would warrant—seem less keen on allowing foreigners to guarantee their security. Already, several shots have been fired at the force. Renegade Tajik forces are the prime suspects.

If the capital is hard to police, bringing a degree of order to the rest of the country looks even harder. But unless there is some counterweight to the warlords and drug lords who have bullied ordinary Afghans for the past decade, there is not much hope that tribal assemblies, however well planned, will be able to unify the country and set it on the road to recovery.

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China

Protests but no bullets

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The authorities appear ready to accept sporadic unrest as the price of progress

PROTESTS involving tens of thousands of workers across north-eastern China may have simmered down in the past few days. But there will certainly be more like them as unemployment soars and corruption worsens in the decaying heartlands of China's state-owned industries.

Although China has been no stranger to labour unrest in recent years, the authorities have usually had to contend only with isolated demonstrations by workers or retired employees from individual enterprises. The demonstrations in the industrial city of Liaoyang in Liaoning province during the past month marked a notable change. The 30,000-odd workers who took part came from over 20 factories. For a government that has long been fearful of the development of a national workers' movement like Poland's Solidarity, this must have been worrying.

Liaoyang's protests coincided with large protests in Daqing, an oil-production centre also in the north-east. Thousands of Daqing oil workers surrounded a management office to protest against the terms offered to those laid off. Unlike the unrest in Liaoyang, the Daqing protests involved only one group of employees. But a witness described the demonstrators as “pretty fearless”: some of them were screaming at officials as they drove in and out of the compound. The tyres of several parked cars belonging to executives were slashed and a windscreen was smashed.

Although these protests were by far the biggest reported in China recently, smaller ones also occurred last month among miners in the Liaoning town of Fushun, in the south-western province of Sichuan (involving several hundred unpaid workers at a textile factory), in south-eastern Jiangxi province (involving several thousand coalminers angered by wage cuts) and even in Beijing itself, where about 200 retired workers from a car factory were demanding their unpaid pensions.The government's handling of these incidents, without serious violence, let alone bullets, does not suggest it is panicking—yet. Protests on the scale of those in Daqing and Liaoyang, though unusually large, do not pose any immediate threat to the stability of the Communist Party leadership in Beijing. The government's tolerance threshold for public dissatisfaction, though still low, is considerably higher than it was a dozen years ago in the jittery aftermath of the Tiananmen Square protests and their bloody suppression.

A book on social unrest published in China last year, “Research on the Problem of Contradictions Among the People in the New Era”, argued that it was difficult to avoid conflict between the government and citizens in the course of economic reform. The book said it was best to resolve such problems by punishing the “few bad individuals” involved while “satisfying in accordance with the regulations any reasonable demands made by the masses.” In practice this often amounts to buying peace and quiet, a tactic that may prove workable only if the protests remain isolated and, for the most part, small in scale.

But there are greater difficulties ahead. A survey of 50 Chinese scholars and officials cited recently by a labour-ministry researcher found their average estimate of the urban unemployment rate to be over 7%. This is nearly twice as high as the government's published figure and slightly over what the respondents considered to be the “warning line”. Most of those surveyed said urban unemployment would rise by a further one or two percentage points within the next two years. This would bring it uncomfortably close to their average estimate of 9.7% for the level at which China would face “major social and economic danger”.

The party accepts it has a big problem on its hands. In its latest survey of social trends, the Chinese Academy of Social Sciences says the country has now entered a period of “recurring crisis”. The task ahead will be to ensure that workers remain disunited and continue to direct their grievances at local-government officials rather than at the party itself. But, for all the party's fears, the security apparatus is

still highly effective at dealing with organised dissent. The emergence of a widely-organised independent labour movement is still a long way off.

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India

A land without income tax

Apr 4th 2002 | GANGTOK
From The Economist print edition

Sikkim looks to the future

THE last time the world paid attention to Sikkim was when a Tibetan boy, regarded by many Tibetan Buddhists as the incarnation of the Karmapa, the third-highest figure in Tibetan Buddhism, escaped into India two years ago. India's government, reluctant to irritate China, stopped the lama from occupying his seat, a monastery not far from Sikkim's capital, Gangtok. The world promptly forgot the thumb-shaped state, which juts up from India into Nepal, Bhutan and China.

Sikkim may well have come up again more quietly last week, when India's foreign minister, Jaswant Singh, visited China. He had gone there to discuss various niggles between the two countries, but chiefly to improve relations that have remained cool since a brief but brutal war in 1962. Mr Singh's trip follows a visit to Delhi by the Chinese prime minister, Zhu Rongji, in January.

China still does not recognise Sikkim as part of India. Until 1975 it was a nominally independent kingdom. It has a small population (540,000), glorious but mountainous terrain and a single major road, vulnerable to mudslides, linking it to the main part of India. Sikkim has been living off these handicaps. As a newcomer to India, with weak finances in a sensitive region, it is entitled to extra aid from the central government. During the 1990s, grants accounted for about 40% of its income.

Uniquely in India, Sikkim pays no national income tax. Most families have at least one member in well-paid government employment. This, along with the support of strong hill communities and customs that are relatively friendly towards women, means that Sikkimese are better off than many Indians. Although the poverty rate is officially high, there is little sign of destitution. On such indicators as access to electricity and drinking water, infant mortality and the age at which women marry (three years older than average), Sikkim scores well. Sikkim is also free of the separatist insurgencies that plague other north-eastern states. Conflict among castes, the stuff of politics in many Indian states, has been subdued.

Sikkim's government realises that the state cannot live for ever off handouts (its budget deficits have been crushing in spite of them). Pawan Chamling, the energetic chief minister, has followed other reformers in publishing book-length human-development and “vision” documents. These tout Sikkim's potential in horticulture, hydroelectric power and “eco-tourism”. They say little about what could be Sikkim's biggest business: trade with China. The mountain pass into Tibet has been closed for 40 years. Warmer relations between India and China might hasten its opening. Wayward lamas will not.

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Japan's economy

Respite without reform

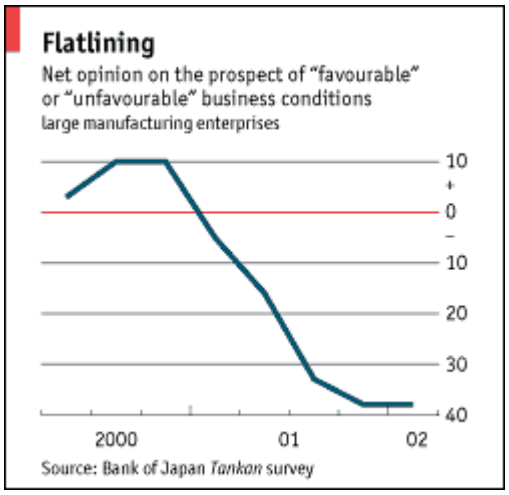
Apr 4th 2002 | TOKYO
From The Economist print edition

The economy looks headed for yet another short-lived bounce later this year

Get article background

JUST two months ago, April 1st was being billed as Japan's day of reckoning. Doomsayers predicted that, as the government partially repealed deposit insurance, to coincide with the start of a new financial year, jittery savers would panic and rickety banks would buckle. But by fiddling the rules a bit, the government helped to defuse this threat, which had anyway been overblown. So when the once-dreaded date arrived, the only economic event worth noting was the release of a prominent quarterly business survey. Its prognosis: far from sliding into crisis, the economy seems poised for a fillip.

The companies polled in the latest *Tankan* survey are still suffering, of course. Among large manufacturers, pessimists outnumbered optimists by 38 percentage points in the quarter just ended (see chart). Yet for the first time since September 2000, that figure has stopped getting worse. Moreover, those companies expect their prospects to become much brighter over the next quarter, as America's improving economy bolsters exports and profits abroad. And so, as the clouds begin to lift, it looks more likely than ever that Junichiro Koizumi's government will avoid tackling the most difficult reforms.



Although it has averted a banking crisis, the government has once again done so mainly by helping the banks avoid their problems. In late February it meddled with stockmarket rules to boost equity prices, helping to lift the value of the shares on banks' balance-sheets at the end of the financial year. And though it will unveil the results of special bank audits later this month, few onlookers expect an honest assessment of their plight.

Instead, Mr Koizumi's economic team continues to talk up other ideas for fixing the economy. His budget for the coming fiscal year, which passed the Diet (parliament) last week, calls for a 1.7% cut in overall spending. Though budget cuts rarely help in recessions, Mr Koizumi argues that channelling money to weak companies in glutted industries has only made Japan's deflation problem worse. Having got his way on spending, the prime minister is now turning his attention towards reforming the Japanese tax system.

Since Japan's tax code is so inefficient, Mr Koizumi could improve it in any number of ways. This week, his three-party coalition said it wants to scrap the rules that stifle demand for property. Japanese businesses, meanwhile, complain that high tax rates make it harder for them to invest and grow. Large companies polled in the *Tankan* survey forecast an 8.4% drop in capital spending this year. With internal profits low and bank loans shrinking inexorably, the government is keen to help them through corporate tax cuts. Lastly, besides bolstering land prices and encouraging investment, Mr Koizumi's team hopes to close some loopholes in the tax code, so that any cuts in tax rates will not increase Japan's public debt too much.

Though much depends on the details, most of these changes seem worth making. But even if Mr Koizumi can push them past the powerful Finance Ministry, and reach agreement on a decent tax deal with his party's faction leaders, tax reform alone is not going to fix Japan's problems. Richard Jerram, chief economist at ING Barings in Tokyo, likens the current approach to "listing all the structural reforms from A to Z, and then crossing off the ones that are impossible, until you get to tax reform". But if the tougher

reforms are impossible now, imagine what will happen if the pressure for change starts to diminish because of a mild recovery.

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Nepal

A moving day for rhinos

Apr 4th 2002 | KATMANDU
From The Economist print edition

The kindness of hunters

AT FIRST glance, it looked like a poaching expedition. In Royal Chitwan National Park, near Nepal's south-western border with India, dozens of elephants were tramping through the thick jungle, their riders carrying rifles and chattering on walkie-talkies. They were hunting one of the world's most endangered mammals, the greater Asian one-horned rhinoceros. But relax. This was Nepal's annual removal of rhinos from the relatively crowded confines of Chitwan to other parks in the country.

The hunters, led by the director-general of national parks, Tirtha Man Maskey, rounded up ten rhinos in five days. They were immobilised with drugs, put in wooden crates and driven in lorries to Royal Bardia National Park in the far west of Nepal, where the rhino population was once depleted by hunting. By the 1960s there were fewer than 100 rhinos in Nepal. Now, despite the activities of poachers (21 rhinos stolen in Chitwan in the past 12 months), Nepal has a healthy stock of 600. Seventy-seven rhinos have been moved to new homes since 1986. This year officials are particularly pleased that they have caught a pregnant rhino. “Just what we wanted,” says a beaming Mr Maskey. “She will give birth in a few months and we'll be able to truly say we've got a breeding population in Bardia.”

The rhino removals are one of Nepal's rare success stories at present. The country is facing attacks by Maoist guerrillas and its economy is in free fall. In the 11 years since multi-party democracy replaced an authoritarian monarchy, most Nepalis think their lives have got worse. Every year, the story of the great rhino round-up is given great play in the local media. It does cheer people up.

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Angola

Peace at last?

Apr 4th 2002 | LUENA
From The Economist print edition

AP

A ceasefire could herald the end of one of Africa's oldest and nastiest wars

Get article background

THREE refugees—a bent old woman, a tiny child and an alarmingly thin man—shuffled down the cargo ramp of an Antonov military transport aircraft. They did not know it, but on the same day, March 30th, and in the same town, the Angolan army was preparing to sign a provisional pact with UNITA, the rebel force it has been fighting, on and off, since the 1970s. No one has ever won money predicting peace in Angola, but there is at least a chance that these three fugitives from the country's terrible civil war could be among the last.

A few months ago, packed planeloads of refugees were arriving every day in Luena, the town in eastern Angola where the pact was signed. Some were fleeing UNITA; others were grabbed unwillingly from their homes and fields by the Angolan army and dumped in Luena's refugee camps. By systematically emptying the countryside, the government hoped to starve UNITA into submission. This brutal tactic worked. Since UNITA's leader, Jonas Savimbi, was shot dead in February, the rebel army seems to have unravelled.

The surviving UNITA bosses who signed the pact looked tired and in need of a few good meals. UNITA's military commander, Abreu Kamorteiro, wore a set of hand-me-down camouflage fatigues far too big for his tiny frame. The group's foreign-affairs man, Alcides Sakala, was not there because he was in hospital, being treated for illness brought on by malnutrition. Also absent was Savimbi's deputy, Antonio Dembo who, UNITA says, died last month, from diabetes. As the Angolan army closed in on the rebels, Mr Dembo doubtless found it a bit difficult to lay hands on insulin.

The peace talks surprised everyone. Three weeks after Savimbi died, the government called off its offensive, and instructed the army to start negotiating locally with UNITA commanders. Within days, they were talking to “General” Kamorteiro (a nom de guerre), and several other senior rebels. UNITA's representatives in Europe cried foul, saying that Kamorteiro and his colleagues were prisoners, not real negotiators. UNITA's negotiators insist that they are free men, but they probably reckoned that the alternative to meeting the government's terms was to suffer the same fate as their late boss, whose grave is marked only by a tree, with his name scratched roughly into the bark.

The government resurrected an old offer of amnesty for rebels who surrender and an old proposal to integrate some of UNITA's 50,000 troops into the national army. On April 4th, Angola's president, Jose Eduardo dos Santos, was due to seal the ceasefire with Savimbi's successor, Paulo Lukamba “Gato”, marking the first time for years that UNITA's top leader has ventured to the capital, Luanda.

Is Angola finally at peace? Previous agreements have always failed, but diplomats are fairly optimistic about this one. Mr Savimbi, the main stumbling-block to tranquillity in the past, is full of bullets. His troops are exhausted, hungry and, it seems, defeated. UNITA's leaders may have lost the war, but some are rather looking forward to reorganising themselves as a more conventional political party and posing an electoral challenge to a government that is not exactly loved.

There are two main grounds for caution. It is not clear that the UNITA officers who signed the ceasefire actually control all the guerrillas in the bush. If ordered to lay down their arms, many rebels may refuse, partly because they do not trust the government not to kill them, and partly because their weapons are often their livelihoods; there are few jobs in Angola, and even fewer that pay better than pillage. And the guerrillas are not the only crooks with guns. Many government soldiers live by looting too, often with the tacit approval of commanders who do not wish to pay them. Several officers have grown rich by seizing control of diamond fields; peace could threaten their illicit activities.

The war has also given the government an excuse (“national security”) to keep its defence budget secret, thereby shielding padded contracts from scrutiny, and to refuse to disclose what happens to a vast chunk of its $3 billion-5 billion a year of oil receipts. Graft gives powerful people a motive to carry on fighting; the peace plan, alas, does not deal with this.

Even if the war really is over, rebuilding Angola will be arduous. The country's fields are mined, its buildings have been blasted to skeletons, and its people have struggled so long to avoid being killed that they have had little chance to learn the skills that might make Angola prosperous. It will take years of wise and benevolent leadership to pull Angola out of this pit. But years of war have allowed a rather different sort of leadership to emerge.

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Nigeria

Three years of democracy

Apr 4th 2002 | LAGOS
From The Economist print edition

Nigerians are freer, but not much richer

Reuters

Half-empty, or half-full?

IT WAS Nigeria's vote that secured the suspension of Zimbabwe from the Commonwealth last month, for having rigged its presidential election. How times change. Only three years ago, Nigeria was itself a pariah, excluded from the same club because its awful military government hanged dissidents. The old Nigerian regime also arrested people in the middle of the night and pinched lorryloads of cash from the central bank. So Nigeria's current, democratically-elected president, Olusegun Obasanjo, could hardly have done worse than his predecessors. In many ways, he has done much better. Nigeria is now one of the two sub-Saharan countries taken most seriously abroad (the other being South Africa). Unlike his predecessors, Mr Obasanjo is generally believed to mean well. But good intentions are not enough to govern a noisy, hustling, divided nation of 120m. Next year, Mr Obasanjo faces an election, and will have to convince voters that life has improved.

At his inauguration in 1999, Mr Obasanjo set out a long list of the problems facing Nigeria—poverty, corruption, ethnic discord, etc—and pledged to grapple with them. His record has been mixed. On the plus side, he has locked up no opponents. Newspapers are now free to publish outlandish stories about corruption and politicians' sex lives. Some of the more thuggish army officers have been purged from political posts. Mr Obasanjo has set up a commission that has held televised, public hearings to expose some of the state-sponsored murders and disappearances of the past 30 years.

Even so, many Nigerians are disappointed. One reason is that ethnic and religious violence has actually grown worse since Nigeria became a democracy. In the past three years, more than 6,000 people have been killed in communal clashes—a terrible figure for a country supposedly at peace. Muslims fight Christians over the question of whether the areas where they live should be governed by *sharia* law, and dozens of Nigeria's 250-odd tribes scrap over land and perceived insults. The police do little to contain the mayhem, partly because they are ill-paid, and partly because they are ill-trained in riot control. (And other things: many have never heard of fingerprinting). The army occasionally steps in, typically when men in uniform have been killed, but most Nigerians wish it would not. Twice during Mr Obasanjo's tenure, soldiers have massacred whole villages with impunity. Brutal officers are not prosecuted because the president is wary of upsetting the army.

For most Nigerians, however, the most important issue is their stomachs. Belts have grown no tighter since Mr Obasanjo took charge, but they have not loosened much, either. The government is still wholly dependent on oil and gas for its revenues, which yo-yo with world prices. Astonishingly, under civilian rule, spending on health and education has actually fallen as a proportion of the budget, while a promised campaign against corruption has so far speared no big men at all.

Industry and agriculture remain stagnant, with a few bright exceptions such as the mobile-telephone business. Even that success is partly a symptom of failure: one reason Nigerians love mobiles is that the state telephone monopoly, NITEL, is so dreadful. An attempt to privatise NITEL flopped spectacularly last month when the winning bidder, a consortium backed by chiefs and politicians, failed to come up with the necessary $1.3 billion. In all, the government has privatised 14 of the 107 companies it says it wants to, but these have mostly been small fry. Only slow steps have been taken to remove essential services such as power and fuel distribution from incompetent public hands. Nigerian businesses still need their own generators and petrol supplies.

Mr Obasanjo's halting progress is not entirely his fault. Pushing reforms through Nigeria's parliament is like trying to roll a meatball through a cage of hyenas. None of the three registered political parties has any ideology; all are the vehicles for rich big men. The members of parliament spend most of their time fighting for a larger share of Nigeria's oil wealth, and refuse to reveal, even to the president, how much they pay themselves.

Three-quarters of Nigerians say they never want to see the army back in power. But few are likely to be thrilled with the choice of candidates next year, when local and national posts will be up for grabs, as well as the presidency. Mr Obasanjo glumly predicts that the poll will be violent, but hopes that it will be adequately free and fair, as no election organised by a civilian government has been since independence in 1960. All parties will doubtless try to bribe the electorate: Nigeria recently withdrew from an IMF monitoring programme because the Fund insisted on spending curbs before the ballot.

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Malawi

The hungry period

Apr 4th 2002 | LILONGWE
From The Economist print edition

Malawi needs food aid

HAD he stolen to feed his family, his sentence might have been lighter. But a man recently found guilty, by an informal village court, of stealing maize, was judged to have stolen it to sell. Food is so scarce in Malawi that the price of maize has sextupled in the past 18 months, so his crime could have been lucrative. And because Malawians are hungry, many approve harsh penalties for those caught stealing from their fields. The unnamed thief had his fingers cut off. Others have been cut to pieces by mobs with pangas.

The months from January to April, when maize stocks from the previous year's harvest run low, are known as the “hungry period” in Malawi. The country's 3m rural households always suffer during the hungry period, but this year has been exceptionally grim. Last year's harvest left a shortfall of at least 800,000 tonnes of maize, the main staple, out of a total requirement of perhaps 2m tonnes. Hundreds of people have died of hunger, and many more have been so weakened that they have succumbed to diseases such as cholera. And things are set to grow worse. The next harvest, which begins this month, would have been good but for the fact that starving people have been eating the green cobs before they are fully grown. By January next year, aid workers fear that thousands will start dying of starvation.

Under the old dictatorship of Hastings Kamuzu Banda, Malawian farmers received subsidised fertiliser but could sell their crops only at fixed, low prices. Since 1994, when the current president, Bakili Muluzi, came to power, prices have been freed. To cushion the impact on small farmers, the government started handing out free “starter packs” of fertiliser and seeds in 1998. The programme acted as a safety-net for the rural poor and helped produce a maize surplus in 1999 and 2000. But in the 2000-01 season, World Bank funds for the programme dried up and fewer starter packs were distributed. At the same time, the kwacha, the local currency, plunged, leaving two-thirds of small farmers unable to afford imported fertiliser and high-yielding hybrid seeds. Smallholder maize output fell by 40%. To make matters worse, the government's maize reserves suddenly disappeared. Donors suspect they were sold by crooked officials, taking advantage of high prices.

The government has arranged to import maize from South Africa, but this is three times more expensive than growing it locally. Donors have not helped much, although America has offered to send some yellow maize, which Malawians do not like. By giving nasty food, American officials reason, they ensure that only the truly desperate will apply for help, and that the local market for white maize, which Malawians mash into porridge and eat with gusto, will not be destroyed.

In the longer term, however, Malawi needs to grow more food. The government, donors and others are thrashing out a “food security strategy”, which will, with luck, include less corruption and more starter packs.

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Kenya's hunter-gatherers

Another African land-grab

Apr 4th 2002 | MAU FOREST
From The Economist print edition

In Kenya, it is politically correct to burn forests and evict indigenous people

Get article background

ON A high slope above the Great Rift Valley, Kiprono Sigilai, a hunter-gatherer, sniffs the breeze, smells smoke and deduces that an election is coming. His woodsman's skills do not deceive him. Every time a poll is near, members of President Daniel arap Moi's group, the Kalenjin, are allowed to grab chunks of forest inhabited by Mr Sigilai's tribe, the Ogiek. This ensures that the Kalenjin fervently support Mr Moi, but the forest suffers. The newcomers fell trees, burn bushes and graze cattle on what is left.

The Mau forest, where the Ogiek live, was protected by court orders, but that was a frail defence against the government. With a vote due this year, Mr Moi's party, the Kenya African National Union, is unpopular and broke. So it has decided to clear 68,000 hectares (167,000 acres) of woodland, mainly in the Mau forest. Most of the 20,000 Ogiek have already lost their livelihood to loggers. Now they face eviction to make way for “politically-correct people”, as Kenyans call the Kalenjin.

This is not only bad for the Ogiek; it is bad for Kenya, too. The country is mostly arid or semi-arid, and depends for water on a few wooded catchment areas. The forests regulate the water cycle: they soak up rain during the wet season and then gradually release it. The Mau forest supplies two-fifths of the country with water. Its destruction is already causing problems. Of the six big rivers flowing into the Rift Valley, five have become seasonal in recent years and one has almost dried up. The country is slowly recovering from a three-year drought, which has left 2.5m people dependent on food aid. This is hardly the time to lay waste more woodland.

The Ogiek have subsisted peacefully for centuries, hunting tree hyrax (tasty small furry mammals, improbably related to elephants) and harvesting honey. But there are now fewer than 500 old-fashioned Ogiek. The environment ministry is supposed to guard their forest home, but periodically sends in thugs to flatten their huts, making way for loggers. One of the last traditional Ogiek, Topiko Minjil, shows off some of his people's dying skills. He kills an antelope with an arrow. He races up a tree trunk and descends with a sopping honeycomb. And he plucks green medicinal shoots from the ground. “This is for gonorrhoea,” he says, holding a specimen up to the dappled light. “That's another thing the Kalenjin brought us.”

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Afghan refugees

Go home. Please

Apr 4th 2002 | TEHRAN
From The Economist print edition

Iran says it wants to repatriate them politely. Good luck to it

VISIT one of Tehran's many building sites, and you will see Afghans plastering walls and laying bricks. Stroll into an Iranian orchard, and you will see Afghans picking oranges or walnuts. Drive past a crossroads early in the morning, and you will see Afghan day-labourers sitting on the kerb, waiting for bosses with pick-up trucks who will set them to work shelling pistachios or humping carpets. Iran has 2.3m Afghan refugees, some of whom arrived during last year's war but many of whom have been there since the Soviet invasion in 1979. The Iranian government predicts they will all go home voluntarily within two years. There's optimism.

Ahmad Hosseini, the civil servant recently appointed to get something done, has devised a repatriation plan, which the United Nations will pay for. From April 9th onward, every Afghan refugee who wants to go home will receive some travel expenses and tents to live in en route. But the scheme will work only if the refugees actually choose to return. Will they?

Mr Hosseini and his colleagues will doubtless try to nudge them. Last summer, a crackdown on Afghans working illegally on building sites raised the number of those going home to around 4,000 a week. Now some Afghans are again being quietly deported. According to one foreign charity, a single mass expulsion last month saw 1,300 people kicked out of one eastern province. Iran has promised not to expel school-age children, even if their parents are illegals; but it has not always honoured such promises in the past.

Aid workers worry about what awaits the Afghans across the border. Ismail Khan, who governs the Afghan city of Herat, the likely first port of call for most of them, says he cannot cope with the predicted number. Even if a new transit camp materialises on the outskirts of the city, many of those arriving may prefer to try to scrape a living in Herat rather than march on to their native provinces, blackened by drought and war.

Many Afghans have lived in Iran for a generation, married Iranians and for all intents and purposes become Iranians. Their labour surely helps Iran's economy. But many Iranians resent their guests, accusing them of drug-smuggling (of which a few are guilty), prostitution (ditto) and—the usual accusation against immigrants everywhere—of stealing jobs from the local people. Feel sorry for Mr Hosseini.

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Ukraine's election

Stumbling along

Apr 4th 2002 | KIEV
From The Economist print edition

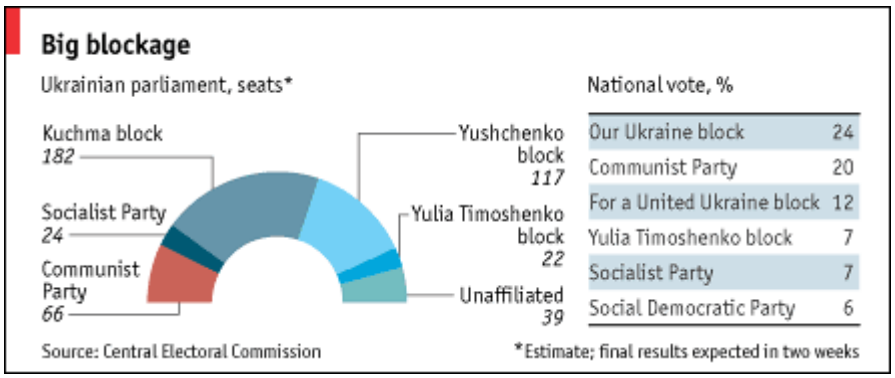
The result of the general election spells both hope and danger for Ukraine—and more worries for its neighbours

Get article background

BY THE sorry standards of the ex-Soviet Union, the election on March 31st was mildly encouraging. The corrupt powers-that-be, for all their bullying, manipulation and plain vote-rigging, won the most seats—but failed to achieve a crushing majority. Opposition parties managed to get into parliament. Only one candidate was murdered. The Communist vote went down. The new parliament may be a bit more businesslike and less turbulent than its predecessor. And it may be harder for President Leonid Kuchma (pictured above) to continue his misrule over Ukraine's 50m people once his term expires in 2004.

That said, gloom prevails. A reform-minded opposition coalition won the popular vote on the national list that accounts for half of parliament's seats but pro-presidential candidates did well, sometimes suspiciously so, in the single-mandate constituencies that make up the other half, so winning the biggest total tally of seats. The president's camp used its powers shamelessly to wring votes out of prisons, the armed forces, the civil service and state-run factories. Opposition candidates faced threats and dirty tricks, and found it hard to get a fair hearing on state television.

Now the question is what Mr Kuchma and his friends will do with their victory. The main opposition leader, Viktor Yushchenko, a former prime minister much liked in the West, has so far flinched from outright confrontation with the president. Mr Kuchma may again be able to win him over or lure away part of his team with some nice government jobs, though the last time Mr Yushchenko was prime minister Mr Kuchma jealously undermined and then ditched him. The out-and-out opposition, led by a fiery former energy tycoon, Yulia Timoshenko, scraped into parliament but will wield little influence.



The current prime minister, the uninspired but efficient Anatoly Kinakh, is likely to stay on for now. That should stop institutions like the IMF from clearing off. But changing the way Ukraine really works is another matter. Businesses close to Mr Kuchma are to most intents and purposes above the law. Some want to become respectable. Others do not. The hideously unreformed bureaucracy makes Russia's pen-pushers look sprightly and modern. Nobody has tried to change that.

All this matters for the current and future members of the EU, which see Ukraine as a worryingly ill-run and uncertain neighbour. The change in Russian foreign policy since September 11th has highlighted Ukraine's backwardness. Russia is now talking seriously to NATO and enjoys increasingly friendly if still undefined ties with the EU. Ukraine, by contrast, seems perpetually unsure whether it truly wants to plump for a western way or to keep at least one foot in the Soviet past.

Its dangerous wobbliness was illustrated by a scandal that broke during the campaign, with allegations (strenuously denied) that Mr Kuchma had personally authorised the illegal sale to Iraq of air-defence systems worth $100m. This was just the latest furore: another, which fizzled on for most of last year, involved the headless corpse of a muck-raking journalist and tapes that seemed to show that Mr Kuchma had ordered his demise.

In the end, though, for all the sound and fury, few of these scandals have had much effect. His reputation dented, Mr Kuchma survives thanks to links with Russia and a canny way with favours and threats. He is said to be privately convinced that the scandals were part of a western attempt to topple him. The pro-presidential press insists that a “Brzezinski plan”, supposedly drafted by Zbigniew Brzezinski, a long-retired head of America's National Security Council, sought to bring Ukraine into the western sphere of influence by putting Mr Yushchenko in power.

Mr Yushchenko is playing a long game. For all the dirt thrown at him, he remains by far Ukraine's most popular politician and its best chance of a change for the better in 2004. Mr Kuchma and his colourless friends will need even more cheating and thuggery to ensure that they beat him off in the next presidential race. So things could turn still nastier. As Mr Yushchenko raises a pro-European reformist flag still higher, Mr Kuchma's lot may shift to a more populist, pro-Russian stance.

Whatever the shenanigans at the top, most Ukrainians are in quiet despair. Few took part in last year's street protests. In this poll, at least 1m voted “against all”, a curious option in most post-Soviet ballot papers. Over 1m have gone to work abroad; many more would leave if they could. Despite last year's burst of economic growth, living standards are dismal, roads and buildings crumbling, disease and drug addiction rising relentlessly. As neighbouring Slovaks, Poles, Hungarians and even Romanians (see article) look ever-more-keenly to the West for friendship and a way of life to be emulated, Ukraine stagnates in isolation. And the gulf between the go-ahead and stay-behind halves of Europe gapes wider than ever.

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Unrest in Moldova

An opposition leader vanishes

Apr 4th 2002
From The Economist print edition

The future of Europe's most dismal country looks ever bleaker

EPA

Where are you, Cubreacov?

VLAD CUBREACOV was by all accounts an honest fellow. Devoutly religious, he lived in a modest two-room flat in Chisinau, the drab and sleepy capital of Moldova, Europe's poorest country. He was a leader of the opposition. Since January he had been organising street protests against the Communist government elected last year. On March 21st, he vanished. That he was abducted seems certain.

It was a professional job, leaving few clues. Who did it? Organised criminals? Unlikely: Mr Cubreacov (pronounced, roughly, Koo-bree-ah-kov) was not a man for debts or loans. The government? Probably not. Moldova's president, Vladimir Voronin, who heads the ruling Communists, probably had agents trailing Mr Cubreacov but had little to gain by bumping him off.

Could thugs from Transdniestria, the Russian-speaking bit of Moldova, have done the deed? It broke away after a civil war in 1993 and has since lived under the delusion that it is an independent country, with secret agents and all. It is an unrecognised semi-criminal statelet whose tinpot regime survives on contraband. It dislikes Mr Voronin's lot as well as Mr Cubreacov's because a warming of relations between the Moldovan government and the Kremlin, which has helped prop it up, could spell its demise.

Whoever is responsible, Mr Cubreacov's abduction is further evidence of Moldova's dismal plight. The economy is pitiful. Half the country survives on what it grows. The average wage, for those with jobs, is $60 a month. Moldovans are emigrating at a record rate.

No wonder that angry demonstrations have choked the centre of Chisinau since January. Some 40,000 turned out at Easter to demand Mr Voronin's resignation. They dislike recent government efforts to Russify the school curriculum and to win favour with President Vladimir Putin of Russia at the expense of better relations with Moldova's neighbours, Ukraine and especially Romania, whose language and history they share; some dream of reunion with it.

A thousand or so have pitched tents opposite the parliament and say they will stay there until the government goes. That could be a while. The Communists expect to run the show at least until the next election, due in 2005. However noisy the clatter outside, they dominate parliament. Mr Voronin still has a lot of support. The elderly get their pensions on time; and most Slav-speakers, a fifth or so of the population, welcome Russia's growing influence.

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Anti-Semitism in France

Confusing signs

Apr 4th 2002 | PARIS
From The Economist print edition

Despite a rising number of attacks, general anti-Semitism may be declining

A SYNAGOGUE burned to the ground in Marseilles; two other synagogues attacked in Lyons and Strasbourg; a shotgun assault on a kosher butcher's shop in Toulouse; a cemetery vandalised near Strasbourg: the horrors of a single Easter holiday are suddenly posing questions the French would rather not ask, let alone answer. Is a general but latent anti-Jewish sentiment coming into the open? Or does the year-long wave of anti-Jewish acts, from graffiti to physical assaults, reflect rather the events in the Middle East, and so perhaps also France's failure to integrate its Muslim, pro-Palestinian minority?

Whatever the answers, the fact is that France, home to around 5m Muslims, mostly of North African extraction, and about 600,000 Jews, has more Muslims and Jews than any other country in Western Europe. The Muslims, concentrated in working-class suburbs that have become ghettos of poverty, poor education, unemployment and crime, all too often feel excluded from the mainstream. For their part, the Jews remember all too well France's dubious record under Nazi occupation. Many Sephardic Jews remember, too, their painful flight from North Africa when France's colonies gained their independence four decades ago.

In other words, the present situation is politically and socially volatile—hence the denunciation of the recent attacks by every right-thinking politician. France's conservative president, Jacques Chirac, on a special visit to a synagogue in Le Havre, described the attacks as “unimaginable, unpardonable” and “unworthy of France and the French”, and called on Lionel Jospin, the Socialist prime minister who is challenging Mr Chirac for the presidency next month, to take sterner measures to protect Jewish buildings. Mr Jospin, stressing that nothing in “the absolutely dramatic situation of the Middle East can justify acts of aggression against our Jewish compatriots or any others”, was already ordering such measures: another 1,100 police and gendarmes to guard Jewish sites in Marseilles, Lyons and ten other big towns.

The incidents do seem to be connected with the politics of the Middle East. A book recently put out by the Union of Jewish Students in France and an anti-racist organisation claims that over 400 anti-Jewish incidents took place between September 2000, at the start of the Palestinians' latest *intifada*, and February this year. They ranged from verbal intimidation to Molotov cocktails. The government of Israel has responded by offering subsidies to encourage French Jews to emigrate, claiming that France is “the worst western country concerning anti-Semitism”.

Such a charge infuriates France's political elite—and mystifies even Israel's ambassador to Paris, Eli Barnavi, who notes that “all the polls show that the Jewish community is increasingly integrated” and that “only some 10% of the French population manifests any anti-Semitic feeling.”

But it will surely be easier to inflame emotions than to soothe them. The Consistory of Paris, a body set up by Napoleon to organise Jewish religious practices, has already described the Easter attacks as “the beginnings of a new Kristallnacht, with the government totally passive”.

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France's presidential also-runners

Whom will the far out usher in?

Apr 4th 2002 | PARIS
From The Economist print edition

A gaggle of extremists could determine who wins the presidency

Get article background

ON APRIL 21st, if the opinion polls are right, a tenth of the electorate will vote for the Trotskyite Arlette Laguiller, a 62-year-old retired bank clerk who is the public face of Workers' Struggle. Clearly, most have not read their Trotsky and, even if they had, they might be loth to abandon the comforts of France's Fifth Republic, whatever its inequalities, for the unknown delights of permanent revolution. So what attracts them to Miss Laguiller?

One reason is sheer familiarity: "Arlette" (for most voters her surname has long been superfluous) has contested every presidential election since 1974, more even than the present centre-right president, Jacques Chirac. Indeed, in the 1974 election, held a few weeks after she had persuaded fellow-workers at her bank, Crédit Lyonnais, to mount a paralysing strike, she came fifth out of 12 candidates, with a shade more than 2% of the vote. Her share fell slightly in 1981 and 1988, but then rose to more than 5% in the last election, in 1995. In the process she has gone from being a trendy young leather-clad militant to a spinster pensioner quite happy without make-up. She made headlines last month when she told a celebrity magazine that, "contrary to what some might think," she was not a lesbian. "I have in my life a man I love, but I keep him hidden."

Count me in

Candidate	Party	Pollsters' prediction, first round, %	Virtues and vices
Jacques Chirac	Rally for the Republic	20	Encumbered by scandals but an evens bet for a second term
Lionel Jospin	Socialist Party	20	Prime minister; was closet ex-Trotskyite
Jean-Marie Le Pen	National Front	13	Demagogue trying to soften vicious image
Arlette Laguiller	Workers' Struggle	11	Most popular on far left; Trotskyite
Jean-Pierre Chevènement	Citizens' Movement	7	Resigned as minister on principle three times; espouses "republican values" that appeal to traditionalists on left and right
Noel Mamère	Green Party	7	Suavest of the environmentalists
Robert Hue	Communist Party	6	Amiability may not reverse party's downward trend
François Bayrou	Democratic Union of France	5	Pro-Europe centrist; possible compromise prime minister if Socialists win presidency but don't get majority in parliament in June
Alain Madelin	Liberal Democrats	4	The only truly free-market candidate
Jean Saint-Josse	Hunting, Fishing, Nature and Tradition	2	Wants to stop Brussels and townies from interfering with *la France profonde*
Bruno Mégret	National Republican	2	Clever but dull; failed to match Le Pen after splitting from him in 1999
Christine Boutin	Democratic Union of France	1	Appalled by moral laxity of modern politics
Olivier Besancenot	Revolutionary Communist	0.5	Engagingly naïve 27-year-old
Daniel Gluckstein	Workers' Party	0.5	Former history teacher, disciple of Trotsky
Corinne Lepage	(independent)	0.5	Former greenish environment minister
Christiane Taubira	Radical Party of Left	0.5	Only candidate who is both black and female; Guiana-born Euro-MP
Nicolas Miguet	Taxpayers' Rally	Not polled	Financial pundit preaching tax cuts all round

Sources: *The Economist*; Groupe BVA; Sondages CSA

A second reason is that, whereas other politicians may trim their opinion with every gust of the pollsters' wind, Arlette is admirably consistent. "Most candidates who seek political power", she says, "are part of

the bourgeoisie; I belong to the workers' camp." So she campaigns not just for more public-sector spending, but also for a law to ban layoffs. And she firmly believes that at some point the revolution will come. Few voters agree, but plenty are willing to indulge the underdog, which explains how in 1998 Arlette managed to be elected a councillor for the Paris region and then a year later to become a member of the European Parliament.

Neither post, it has to be said, carries much power, but that is precisely why she was elected to them. The biggest reason so many people will vote for the revolutionary pensioner on April 21st is that they are ready to protest against the status quo but are not brave—or foolish—enough to change it. To vote for Arlette is an easy option: she will not be one of the two candidates in the run-off on May 5th. That second round gives voters the chance to vote with their heads rather than their hearts.

How many will take that chance? The losers of the first round, having wrung suitable promises from the winners, usually urge their supporters to vote one way or the other in the second round. That is why Jean-Pierre Chevènement, a sort of Gaullist Socialist of the old school, may be influential even as he slips below Arlette in the opinion polls: if he leans towards the Socialist prime minister, Lionel Jospin, his supporters could ensure Mr Chirac's defeat—and vice versa.

It is also why the Chirac camp is so frightened of Jean-Marie Le Pen and the far-right National Front. Mr Le Pen, who viscerally dislikes Mr Chirac, says the president's camp tried to deny him the 500 signatures from mayors and other elected officials that every candidate must have. And he is telling his supporters that Mr Chirac, whatever his conservative credentials, would be a disaster for the right. Since Mr Le Pen may well, like Arlette, get a tenth or more of the first-round vote, such feelings cannot be ignored.

And to whom will the Crédit Lyonnais pensioner throw her support, in her struggle to promote revolution from her modest flat in an unfavoured Paris suburb? Will her first-round protesters become second-round backers of Mr Jospin, himself a former Trotskyite? Or of Mr Chirac, who as a teenager once sold the Communist Party's newspaper outside a Paris Métro station? Or will they simply abstain? Teasingly, Miss Laguiller says she will not advise her supporters one way or the other.

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Corruption in Germany

Too much of it

Apr 4th 2002 | BERLIN
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Scandals continue to embroil both of Germany's two main parties

Under scrutiny

Some politicians and officials named in connection with corruption since January 2001

Political party	Person(s) involved	Place	Allegation	Legal status
Christian Democratic	Hans-Joachim Doerfert, local party treasurer	Trier	Embezzlement of 10m-plus from a charity whose branch office he ran	Jail sentence of ten years
Christian Democratic	Helmut Kohl, former chancellor; Brigitte Baumeister, former party treasurer; Horst Weyrauch, former financial adviser; and others	Nationwide	Mr Kohl admitted receiving DM2m (at the time worth $1.2m) for party slush fund, but refuses to name donors	Criminal charges against Mr Kohl dropped when he agreed to pay fine of DM300,000
Christian Democratic	Manfred Kanther, former federal interior minister and Hesse party leader; Prince Casimir zu Sayn-Wittgenstein, former Hesse party treasurer; and Mr Weyrauch	Hesse	Embezzlement and corruption	Charges dropped under statute of limitations; prosecutor has appealed
Christian Democratic	Hans-Joachim Hoffmann, mayor	Saarbrücken	Embezzlement and fraud	On trial
Christian Democratic	Kurt Biedenkopf, state premier	Saxony	Using state employees for private work; accepting holidays and free gifts	Mr Biedenkopf agreed to step down early, but investigations continue
Christian Democratic	Günther Krause, former federal transport minister	Rostock	Corruption	Under investigation; decision imminent on whether he will be tried
Christian Democratic	Klaus Landowsky, former party leader in city-state parliament	Berlin	Corruption over property and banking	Mr Landowsky resigned and is under investigation
Christian Democratic city government, and officials	Over 300 (executives of more than 100 companies included)	Frankfurt	Kickbacks for public-works and trade-fair contracts	Under investigation
Social Democratic/ Christian Social Union	Officials of International Congress Centre, jointly owned by city (SPD) and state (CSU)	Munich	Kickbacks	Under investigation
Civil Service	Senior state officials	Schleswig-Holstein	Corruption in economics ministry	Top aide to SPD premier resigned; investigations continue
Social Democratic	Norbert Rüther, former party leader in city and two colleagues	Cologne	Bribery over waste-disposal contract worth 400m	Under investigation
Social Democratic	Günther Rixe, former federal MP	Bielefeld, North Rhine-Westphalia	Embezzlement	Under investigation
Social Democratic	Peter Rausch, local party leader	Recklinghausen, North Rhine-Westphalia	Using public contractors for work on his home	Under investigation
Social Democratic	Eckhart Lewering, federal MP, and wife	Saxony-Anhalt	Cut-price house in return for favours to company	Under investigation

Source: *The Economist*

"ONLY idiots have to rob a bank to make money these days," the finance minister of the state of Baden-Württemberg declared recently. He was talking about a vast tax-evasion scandal involving phantom companies and fake invoices that erupted in Germany last summer. But it could have been any one of umpteen scandals in recent years. Companies, public officials and politicians have all been caught up in them. Many once highly placed in the "land of discipline and order", among them Helmut Kohl, chancellor for 16 years, have been brought low.

The latest affair, which blew up last month, is a threat to Chancellor Gerhard Schröder's campaign for re-election in the autumn. It concerns allegations of huge bribes paid by a waste-management company in the mid-1990s, in connection with the building of a *euro*400m ($353m) waste-disposal plant in Cologne, in North Rhine-Westphalia. A former leader of the Social Democrats, who ran the city until 1999, has admitted receiving *euro*424,000 in illegal donations to his party, but refuses to say where from. A former party treasurer in the city has admitted issuing false receipts to dozens of members, to explain the cash, and has revealed names. The former head of Steinmüller, a building company involved, is being held. Investigators believe that Trienekens, a waste-disposal company, may have put *euro*15m in intended

kickbacks into Swiss bank accounts.

Investigations into all waste-disposal contracts in North-Rhine Westphalia over the past decade have already turned up other cases of suspected malfeasance in towns run by the Social Democrats. Franz Münterfering, a former leader of the state's Social Democrats and now the national party's general secretary, is frantically trying to contain the scandal. He says he “knew nothing” about the mischief in Cologne; it was a purely “local affair”. The scandal greatly embarrasses the Social Democrats, the more so because they have presented themselves as the clean party, in contrast to the Christian Democratic Union, which has been mired for two years in a vast party-finance scandal of its own.

Germany's reputation has been tarnished. “It is much more corrupt than previously thought,” says Peter Eigen, head of Transparency International, which now rates it only 20th for public honesty, below Hong Kong. While total recorded crime in Germany has been falling steadily for eight years, business crime has soared by 50%. Wolfgang Schaupensteiner, a leading fraud investigator, says corruption is now the norm in waste disposal, building, property and pharmaceuticals. In 2000, the latest year for which figures are available, police investigated 1,243 cases of possible bribery related to public contracts.

One trouble is a lack of openness. The federal interior ministry has drafted a freedom-of-information bill covering local-authority contracts, but rows within the ruling coalition have delayed it. Eager, after the Cologne affair, to show its anti-corruption, the government has announced plans for a national blacklist of companies caught paying bribes or engaged in other shady practices: for a period they would be banned from tendering for public contracts—a penalty indeed.

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Charlemagne

A Nastase shock for NATO?

Apr 4th 2002
From The Economist print edition

If countries like Romania enter the alliance, it may become a very different affair

IF THE guesswork of diplomats and politicians from across the continent gathered recently in Romania's capital, Bucharest, is anything to go by, NATO should steel itself for a “big bang” when, later this year, it decides which countries should join the long-sturdy but recently-groggy alliance. Come November in Prague, it is quite possible that NATO's leaders might announce that as many as seven of the countries keen to join the club in the next round—the Baltic trio (Estonia, Latvia and Lithuania), plus Slovakia and Slovenia (sometimes known as the Slo-Slo duo), and even those oft-derided south-eastern laggards, Romania and Bulgaria—will all be clasped cosily within the North Atlantic military embrace. In which case, the question “What is NATO for?” will resound even more insistently around Europe's chancelleries and parliaments and in the world beyond.

The remarkable thing about the Bucharest jamboree was that awkward questions of that stamp were deafeningly absent from the agenda. Such notions as nuclear first strikes, even the potency of NATO's Article 5, which declares that an attack on one country in the club is an attack on all, were blissfully unmentioned. Instead, the mood of the meeting was one of jovial ex-communist Central European solidarity (yes, both Balkanites and Balts want to be Central these days), with no country's government apparently seeking to deny another's place in a new, westward-leaning, Europe in which NATO membership is at least as much a mark of civic propriety as of military worth.

So the mood was nervously perky. A few years ago, the Balts were widely thought impossible to wrap into NATO: the Russians would have been too angry for the West to dare mention the idea. A few years ago, NATO countries seemed likely to apply the criteria of military readiness quite rigorously when considering newcomers; the Poles, Hungarians and Czechs were only just allowed in, three years ago. Now, however, the word from Washington, where by far the biggest say is still to be had, is that at least five countries look odds-on for admittance: count the three Baltic states and the Slo-Slo pair in; and even Romania and Bulgaria, it seems, have a fair chance of sneaking in.

Why this apparent change of strategic heart, especially in Washington, where President George Bush is considered by many of his European allies to have entirely, indeed wilfully and reprehensibly, ignored the other 18 countries now in NATO during the dramatic events after September 11th?

The first answer is that the United States wants every bit of help it can get, even occasionally from those often feeble Europeans, in its war against terror. Consolidating NATO geographically in the part of Europe closest to the Middle East makes sense. Widening NATO's “southern dimension” to take in even Romania and Bulgaria is keenly encouraged by southern-belt Europeans, such as France, Spain and Italy. More strikingly, even those old rivals within NATO, Greece and Turkey, have vociferously backed the idea. Hugging the two laggards would give NATO a bigger foothold on the edge of the Black Sea. Already, the Americans are using Bulgarian airbases for lifting men and materiel to Afghanistan and ex-Soviet Central Asia.

The second big reason for a big bang is that the Russians under Vladimir Putin seem incomparably readier than they were two years ago to take it on the chin, thanks to his own new rapport with the West. And that, of course, is why Mr Bush is keen to bring the Balts in before the Russians can say boo again.

The final reason is a change in emphasis on NATO's purpose. Yes, say the Americans, of course Article 5 is still the alliance's cornerstone. If a nasty new-old Russian regime suddenly decided to bash a new NATO member, say Latvia, where relations with ethnic Russians are still far from sweet, an expanded alliance would darned well have to fight for those Letts. But NATO is no longer the cold-war club of old,

bulging with nukes and with eyes on the Fulda Gap. For one thing, its military gaze (in so far as it has one) has already shifted to more distant fields. For another, the new stress is on binding the likes of Romania into the West to enhance its civic value. “NATO has become all political,” said an influential American in Bucharest bluntly. Of the various criteria for entry, military readiness has plummeted; a functioning democracy and market economy, an absence of disputes with neighbours and respect for minorities, now seem to be becoming just as important, maybe more so.

Should the laggards qualify, even so?

Even on those scores, Romania and Bulgaria are struggling to catch up. They are groping ahead but are still fragile democracies where many people are dirt-poor and resentful, susceptible to populists, and by no means instinctively wedded to western civic values. Both countries are hugely corrupt, their bureaucracies ghastly. Romania's prime minister for the past year-and-a-bit, Adrian Nastase, is a tough, intelligent ex-communist who says the right social democratic things but is having difficulty turning words into deeds. Romanian politics is still, to a large extent, a competition between rival clans, inside and between the parties. “A hall of mirrors”, is how one western diplomat describes it. A rabid Greater Romania populist and anti-Semite, Corneliu Vadim Tudor, won a quarter of the vote in the last general election, and a full third of them in the presidential run-off.

Getting the two laggard countries, not to mention the others, into NATO, as a sort of ante-chamber to other more political and economic clubs, notably the EU, might help keep them on the straight and narrow without unduly lowering the quality or stability of the military alliance. That, at any rate, is the theory. (If another nasty populist, Vladimir Meciar, gets back into power in Slovakia, as he may, only half of the Slo-Slo duo will make it.) Whether the theory holds up until autumn in Prague is still a guess. But the gamblers of Bucharest and Sofia, egged on by winks in Washington, are staking a lot of cash and pride on it.

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Social mobility

The rich are different

Apr 4th 2002
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Guardian

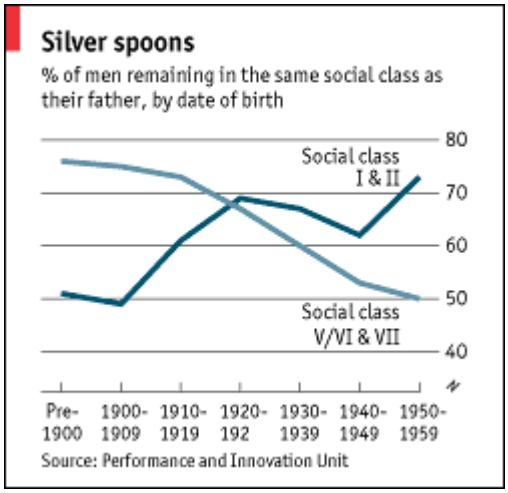
Meritocracy in Britain? It would be a good idea

NOT long ago in the House of Commons, an obscure Labour MP—now destined to remain obscure—asked Tony Blair to outline his political philosophy. The prime minister prevaricated; but by way of a belated riposte, he made a speech explaining the values that distinguish his government from mere technocrats. One of these, he said, is its belief in “fairness”. What this boils down to is that, like every British leader since the 1960s, Mr Blair claims to be a meritocrat. To many left-wing Labour MPS, of course, meritocracy is a distinctly timid goal. Nevertheless, it is a tough one to achieve; and new research suggests it is getting tougher.

Like other countries, Britain has a goodly number of people who have exchanged their childhood rags for riches of one sort or another—for instance, Mr Blair's predecessor, John Major. Combined with rising levels of overall prosperity, these salutary examples create the impression of an increasingly fluid society. A paper presented to the Royal Economic Society last week punctures that complacency. The study compared the earnings of a group of people born in 1958 with those of one born in 1970. Having rich parents, it turned out, was even more of an advantage for children born in 1970 than it was for those born in 1958: the gap between the eventual adult incomes of better-off and worse-off children grew, even allowing for the general increase in income inequality since 1970.

Class, of course, is more than simply a matter of income—especially since pay in some traditional middle-class jobs, such as teaching, has fallen well behind that in others. But research into mobility among occupational classes tells a similar story. The middle class expanded rapidly after 1945, but the number of people who rise above their parents' station has levelled off in the last couple of decades. Meanwhile—and notwithstanding celebrated examples of the high-born ending up on skid row—the mechanisms which protect middle-class children from downward mobility (education, contacts, money) are becoming more effective, so that their chances of falling beneath their parents' station are decreasing (see chart).

Not every analysis paints quite this picture. Peter Saunders, of the Centre for Independent Studies in Australia, argues that a bright and industrious working-class child will “almost certainly” end up in the middle class, and that “by and large, Britain is meritocratic”. Opinion polls suggest that the public takes a gloomier view. The proportion of people believing that opportunities are affected by social class grew during the 1980s and early 1990s.



Squeeze the rich

International comparisons offer little in the way of explanation. Britain is among a group of countries, including Italy, Germany, France and (contrary to popular mythology) America that are less fluid than a second unlikely hotchpotch, which includes Australia, Israel, Japan, Sweden and Norway. There is some evidence that more unequal countries tend to be less mobile (though a truly meritocratic society might also be very unequal).

One form of declining mobility—a reduction in the chances of working-class people improving their station during one lifetime—is relatively easy to explain. Jonathan Gershuny, of the University of Essex, says that the “tradesmen's entrance” to many professions is now closed. Until the 1970s, higher-status employers recruited and retrained workers mid-career; growing educational opportunities have meant that they now tend to recruit graduates directly. Still, the educational boom ought to have favoured the less well-off, increasing mobility across the generations.

In fact, the well-off have benefited from this expansion more than anyone. During the 1990s, for example, the proportion of young people entering higher education rose from one in five to one in three; but at the end of the decade, nearly three-quarters of university students still came from the top half of the social spectrum. Even with similar educational qualifications to their “betters”, people from poorer backgrounds often do less well economically—partly because, says Richard Sennett of the London School of Economics, they tend, in both Britain and America, to attend less prestigious universities. The abolition of grammar schools from the 1960s onwards blocked one route for talented working-class children to achieve their full potential. Meanwhile, those without qualifications are more disadvantaged, relatively speaking, than ever.

Since most of the policies affecting the available research preceded Mr Blair's election, it would be wrong to hold him responsible for these trends. But if he really believes in meritocracy, the prime minister might, on one definition of that term, be thinking about enabling more downward mobility from the middle classes. Since the (arguably unfair) advantages middle-class parents confer on their children include intangibles such as contacts and confidence, that would be tricky even if it were desirable. But the government could, for instance, raise inheritance taxes, or try to prevent the middle-classes monopolising the best state schools.

Such measures are unlikely to appeal to a prime minister who says that the class war is finally over. In any case, facilitating upward mobility is challenging enough to keep him occupied. As well as ameliorating the effects of poverty, that will mean reforming the way higher education is financed and delivered, so that poorer families benefit more from its expansion, and improving secondary education, so that talented poor children can get to the best universities.

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Cannabis

Pier pressure

Apr 4th 2002 | BOURNEMOUTH
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Two espressos and a couple of jumbo spliffs, please

“THIS fashionable watering-place”, Thomas Hardy wrote of Bournemouth in 1891, “was like a fairy place suddenly created by the stroke of a wand, and allowed to get a little dusty.” For the next hundred years or so, the once-elegant Dorset town went on gathering dust. By the end of the 20th century it had become known principally as a retirement destination—people joked that even the shop windows in Bournemouth were bifocal.

Things have changed. In the past few years, a number of financial-services companies have set up offices here, bringing an estimated £600m to the local economy. The town has also gained a reputation as a nightclubber's paradise and a trendy place to live. House prices have shot up by 114% over the past five years. England's celebrity football captain David Beckham and his pop-star wife, Victoria, are said to be looking for a pad in the area. Goodbye bifocals, hello wrap-around designer shades.

Two further developments may accelerate Bournemouth's transformation. Earlier this week, a Dutch-style cannabis café opened its doors for business; and the town looks set to become a centre of gambling following the government's decision to relax the gaming laws.

At the Dutch Experience 2, with just half an hour till the grand opening, a plumber is busy connecting a hot-water unit. Steps up to the main entrance are being hastily assembled. The decor looks pretty makeshift too. There are a few marijuana leaves stencilled on to the still-wet walls. The torso of a female mannequin with brightly painted nipples adorns a corner shelf. The back rooms are full of boxes and junk.

“We were raided by the police last week,” explains the café's laconic proprietor, Jimmy Ward. “That took all of Tuesday. So we're running a bit behind schedule.” Nevertheless, Mr Ward remains hopeful that his café will help promote the legalisation of cannabis.

At their spring conference the Liberal Democrats voted in favour of legalising the drug—they are the first mainstream political party in Britain to take this line. Home secretary David Blunkett, however, has indicated that although he is prepared to reclassify cannabis as a less harmful drug, he has no intention of legalising it. So, for the time being, cannabis possession remains a criminal offence, punishable by a sentence of up to two years. But police are more likely to issue a warning than to arrest people caught with cannabis.

Many of those present at the opening of the Dutch Experience 2 have come from Stockport, near Manchester, where the first Dutch Experience café opened last September, to considerable hullabaloo. There 28 dope-smokers were arrested while dozens more queued up outside the local police station waving bags full of weed and demanding to be arrested too.

By lunchtime the Bournemouth crowd is getting restless. Despite warnings that illegal behaviour at the café will not be tolerated, there has been not a glimpse of the Dorset constabulary since it opened three hours ago. A man rides past on a bicycle. “Are you with the police?” a customer shouts hopefully. “No!” comes the cyclist's bemused reply. “Humph. Definitely a copper,” somebody mutters.

Outnumbered by journalists and cameramen, the potheads co-operatively unpack their smoking paraphernalia and pose for photographs. Following last week's raid, Mr Ward has put signs all over the café's walls reading “The smoking of cannabis is *not* permitted”. In keeping with the conditions of his licence, he sells only tea, coffee and fizzy drinks. But it's not long before the place is thick with a fragrant haze. “I haven't got good eyesight, and I've got a terrible sense of smell,” Mr Ward sighs.

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Northern Ireland

An odd burglary

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When intelligence papers go missing, the conspiracy theories begin

THE first recruits to the new Police Service of Northern Ireland arrived on the streets this week. A historic moment but it has been overshadowed by a bizarre saga of cops and robbers. Even those least inclined to believe in conspiracies are wondering if this is not an exception.

The tale began with a break-in and the theft of a number of notebooks and papers from Castlereagh, a heavily guarded police base. It was a holiday, St Patrick's Day, with few workers in the base. Three men strolled in, showed passes and made straight for the Special Branch office, which had been there for only three weeks. A lone policeman guarding the office was punched, blindfolded, and tied up while the contents were ransacked. The raiders made off with a small haul, described by the chief constable as not important, which nonetheless included code names and possibly also telephone numbers of police informers. A number of people have had to be warned that their links to the security services may no longer be secure. One of the three robbers had an English accent: the three checked several times to ensure the tied-up policeman was able to breathe.

Suspicion fell initially on members of the security services. Accent, passes, the familiarity with a recently moved office and the care to avoid injury fed conviction that the raiders had inside help. Even the outgoing chief constable, Sir Ronnie Flanagan, suggested that an inside job looked more likely than paramilitary involvement.

Investigations began: two parallel teams headed by a senior civil servant, Sir John Chilcot, who has an intelligence background and is Northern Ireland's most senior detective officer. They add to a string of overlapping inquiries, including three into alleged collusion between the security forces and loyalist paramilitaries in the killings of two lawyers who specialised in defending republicans.

Despite indications that it was an inside job, in the early hours of Easter Sunday, about 200 police and soldiers broke into houses and offices in Belfast and Derry, and arrested six people, including a key supporter of Sinn Fein leader Gerry Adams. The security forces carried off computers, disks and documents.

The names and details of those arrested were leaked, together with the strong suggestion that the IRA had been responsible for the raid on Castlereagh. One of the detained was a Protestant woman civilian worker at the police base, rumoured to have a republican friend. Unionists immediately said if the IRA were to blame, the entire peace process would collapse.

Sinn Fein hotly denied IRA involvement and called the arrests a stunt to distract attention from the security forces themselves. They also complained that the timing was insensitive, on Easter Sunday, while republicans were commemorating the 1916 Rising. Two days later, all but one of the six suspects was released. A man was charged with possession of documents “likely to be of use to terrorists”, but it was admitted that these were not the papers taken from Castlereagh. The break-in remains a mystery.

Castlereagh's days as a police interrogation centre ended in 1999; the base now houses mainly intelligence agents. Special Branch is the unit of the old Royal Ulster Constabulary most resistant to transformation into a new civilianised police service. Moves have already begun to bring its officers under tighter control, arousing protests from unionists that this was appeasement of republicans whose terrorism the branch had combated.

But like such units everywhere, Special Branch officers are unpopular with other police. They are thought of as a force within a force, protective of paid and other informers to the point of endangering the lives of

police and soldiers. The long-running inquiries led by English detectives into the deaths of the lawyers Pat Finucane and Rosemary Nelson are partly investigations of Special Branch practice, and of links with MI5 and military intelligence as well as with loyalists.

Relations among the intelligence services are tangled and have often been strained. There have been allegations that loyalist paramilitaries were used as double agents. Concern increased when loyalist Billy Stobie was shot dead late last year, soon after a prosecution implicating him in the Finucane killing collapsed.

The Castlereagh theft took the shine off the April 5th passing-out parade for the 300 new officers of the Police Service of Northern Ireland. As recommended in the transformation proposals, half the new officers are Protestant and half are Catholic, to encourage the allegiance of the entire community. But a new-look police service is struggling to compete with the stuff of badly written thrillers.

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Horse-racing

Toffs v Bookies

Apr 4th 2002
From The Economist print edition

Britain's horse owners take on the bookies. It's down to the finish.

HURRY up and pick a winner at your high street bookmaker before May 1st. After that, if the demands of the British Horseracing Board (BHB), the governing body representing racecourses, are refused, you might have to trek to Newmarket to have a flutter. The BHB wants bookmakers—William Hill, Coral and Ladbrokes are Britain's big three—to pay more for the video feeds and race data piped into every betting shop. If the bookies refuse, their off-course screens may go black.

That would be a losing ticket for everyone, not least the bookmakers, points out Peter Savill, the BHB's pugnacious boss. Mr Savill is adamant that racing is not getting a fair price. He wants to charge bookmakers 2.5% of their turnover, more than double the current levy, and scrap a pending profits-based scheme, which, he says, makes racing shoulder too much of the bookmakers' business risk.

The bookmakers are angered by the new aggressiveness of Mr Savill's BHB, which took over as racing's regulator from the aristocratic Jockey Club in 1993. It now represents some of the best venues in British racing. The bookmakers have on their side the 1960 Betting and Gaming Act. Legend has it that the law was crafted when the toffs of the Jockey Club were mired in gambling debts. Racecourses and horse-owners complain they are now at the bookmakers' mercy. Mr Savill points out that he has no other “distribution channel” for racing. But even the state-owned Tote, a pooled-bet scheme, is backing the bookies. Some wonder whether the problem is not the BHB's lack of negotiating skills. Legal action is pending though no decision is expected before the May Day deadline. The Office of Fair Trading may yet have to intervene.

One industry concern is that British punters would not much miss the ponies. Sports such as football and greyhound racing have been gaining a few lengths on the nags. Racing may hurt only itself if punters are steered to other pursuits.

Despite its strange economics, British horse-racing is thriving. Horse owners are willing to pay for the pleasures of pageantry. British owners earn back only 21% of their expenses from prize money, the lowest return in the big racing countries, compared with over 50% in France and America (see chart). The BHB points out that British racing receives less of the betting pot than its counterpart in any other country.

But there are other ways to keep the horses in oats. The rise of corporate sponsorship over the past decade would make a billboard salesman blush. Jockeys' colours now sport vivid company logos. Races such as the UK Hygiene “For Air/Smoke Filtration” Handicap are now common. The Derby is full of Vodafone advertisements. Surely seeking other sources of revenue is preferable to shutting out the high-street punter.

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The Queen Mother

Beware the red tie

Apr 4th 2002
From The Economist print edition

The royal death sparked off a furious row

Get article background

AP

A ROW over the peaceful passing of a 101-year-old woman seems improbable. Yet the death this week of Queen Elizabeth the Queen Mother was marked by increasingly bitter arguments. Not, mind you, about the Queen Mum herself. She may not have been quite the synthesis of Mother Teresa and Joan of Arc that the soupier tributes suggested; nor, as the Conservatives' leader burbled, the nation's mother, grandmother and great-grandmother rolled into one. But she was popular for her guts, zest for life and sheer longevity.

What sparked the row was the way the BBC handled the news of her death. Nobody expected the BBC's main television channel to shut up shop and play solemn music for two days as it might once have done. But nonetheless the BBC is expected at such times to act as if it were one of the dignified parts of the constitution. This, the BBC, according to its numerous critics in the right-wing press, wilfully failed to do.

What actually happened is that a veteran anchorman, Peter Sissons, turned up in front of the cameras without a black tie (he was wearing something fetching in burgundy that went well with the Beeb's latest corporate look) and proceeded to ask the Queen Mother's niece, who had attended her deathbed, some mildly intrusive questions about her last moments.

And that was about it. But the explosion of outrage was not long in coming. The BBC had insulted the queen and betrayed the nation. Millions of viewers were said to be reeling in shock as they came to terms with the awfulness of Mr Sisson's burgundy tie.

In truth, the BBC might have done a better job. Many people, particularly the elderly, expect that the BBC should observe the decencies at such times with greater care. That said, the BBC, on this occasion, may well have more accurately reflected the “mood of the nation” than the tabloid newspapers, with their endless special sections and synthetic fury.

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Teachers

Scottish lessons

Apr 4th 2002 | EDINBURGH
From The Economist print edition

Counting the hours

Teachers want to work fewer hours but what will they offer in return?

Get article background

THE Scots have always prided themselves that their education system is superior to that south of the border. But there is one new feature of Scottish education—a 35-hour working week for school teachers—that is beginning to cause trouble. Teaching unions in England and Wales would like that deal for their members too. Estelle Morris, the education secretary, thinks it is a “potty” idea. The details of how the Scottish deal is being implemented show that Ms Morris is right to be suspicious.

The quest for a 35-hour week has become something of a holy grail for the English teaching unions. This Easter's parade of seaside trade union conferences, now a ritualised display of militancy, saw all the big unions pass similar motions threatening strike action in the autumn if the government does not move far enough in their direction.

Teachers' demands for more time off raise hackles with the rest of the working population. They, after all, do not enjoy the three months of holiday a year that teachers get. But the unions unrepentantly point out that other workers would not enjoy having to put in the 53 hours a week, on average, that they say teachers do, even if it were only for 40 weeks of the year.

Ms Morris is sympathetic to the idea of reducing workloads. She wants classroom assistants and other non-teaching staff to do more of the routine school work, leaving teachers more time to teach. Later this month, she is expected to use a report from a review body to negotiate a deal guaranteeing teachers at least three to five hours a week time off to prepare lessons.

The unions, however, are unlikely to be deflected from the goal of a 35-hour week, especially as they see it now being implemented in Scotland. This came with a pay rise pushing salaries up by 23% between 2001 and 2003, taking teachers' pay slightly ahead of salaries in England.

The deal, however, is complex. The intention is to give teachers a long-craved professional status. Most of the seven tiers of promoted posts in secondary schools are to be removed, and a chartered teacher grade will give good teachers salaries of £35,000 without having to do management work. In addition, workloads are being reduced with the introduction of classroom assistants. Teachers will be allowed to take more responsibility for their work rather than being subject to various forms of bureaucratic control. But, like other professionals, they will be expected to work more than 35 hours when needed.

In Scotland, it doesn't seem to be working out that way. Many head teachers say that their staff see 35 hours as the limit. So time for parents' evenings and other out-of-school-hours work is often being reduced rather than expanded.

What seems to be happening in some areas is that sharp local union officials are out-manoeuvring head teachers and local education officials. So Scottish government officials are worried that a deal which will cost taxpayers about £900m may simply result in more highly-paid clock-watching teachers.

Sorting this out will require political leadership. But that does not seem to be forthcoming. The deal was given to teachers by Jack McConnell when he was Scottish education minister. Now that he is Scotland's first minister, he is not likely to announce that it was, in fact, a bad deal for taxpayers. And since he faces elections in May, he is hardly likely to stir up trouble with teachers as well.

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Social security

Welfare to work

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From The Economist print edition

Changing the psychology of welfare needs more than new paint and offices

SOCIAL security has long been one of the least rewarding portfolios in British government. Yet it is also the largest, swallowing in 2001-02 about £109 billion, a quarter of the government's spending. Successive ministers and governments have tried, and failed, to bring the programme under control. Now a radical upheaval is under way. Ministers hope it will cut spending, fraud and staff, and be a lot more efficient at getting people off welfare benefits and into work. The initial signs, however, are mixed. It will be a long time before the hoped-for results appear, if ever.

Designer dole

From April 1st, the 71,000 staff of the Benefits Agency and the 36,000 workers in the Employment Service have been reorganised. Some now work for the new Pensions Service, which deals solely with pensioners' claims, but most have transferred into an amalgamated Jobcentre Plus service.

This is strikingly different from what went before. Previously, anyone who lost his job would go to a benefits office, fill out a form and return three days later to find out what welfare payment he would get. Meanwhile, they were supposed to go round to the employment office and look for a new job. Quite apart from the bureaucracy involved in dealing with two separate departments, the dingy benefits offices with plastic seats bolted to the floor and staff walled off behind glass screens made it a dispiriting experience.

The government believes that the payment of unemployment and related benefits should be firmly tied to efforts to get a job. So Jobcentre Plus offices deal with both benefits and jobs. They also look more like a bank. A claimant is met at the door and escorted to a personal adviser at a desk in an open-plan office. The adviser takes the benefit claim details and while the answers are being worked out (about 70% of claims are now resolved on the spot), the claimant talks to someone else about getting a job or re-training. By March next year, 280 of the department's 1500 offices will have been converted at a cost of about £1m per office.

The biggest difference this has made so far appears to be in staff purpose and morale. Jack Martin, who manages the new office in Port Glasgow, a tough town hit hard by the loss of manufacturing work, says: “Four years ago, my job was purely about paying benefits to people, meeting targets and not about encouraging them into work.” Now, he says, it is about breaking cycles of welfare dependency and getting people a job.

Mr Martin, who unwaveringly refers to claimants as customers, can produce plenty of anecdotes about improved service and efficiency. But the department has yet to produce measurable results. The Commons select committee on work and pensions, which examined an early pilot of this system, found that there was little difference in the speed at which benefit claimants got work between the new and the old systems.

Alistair Darling, the work and pensions secretary, says the pilots were mostly about ironing out teething problems, such as getting a single computer system to replace the different incompatible systems which the two departments previously used. Apart from expecting that the new service will reduce benefits dependency, he says that better computer systems and more personalised knowledge of individuals cases should also reduce benefits fraud, which is reckoned to cost about £2 billion a year. The incidence

of fraud and staff error in income support and jobseekers' allowance payments, he says, is down by more than 18% over three years to £1.2 billion in 2001.

Mr Darling says it is too early to know whether the merged service will need fewer staff. But the Public and Commercial Services Union may have inadvertently provided evidence that the new service could be slimmer. A six-month strike it called, supposedly over the lack of glass security screens in the new offices, is now petering out, having been ignored by most staff. But managers in the offices where many officers walked out have noted that they still managed to provide a fairly full service.

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Bagehot

Gordon the bulldozer

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The chancellor may know he's right, but what he's trying to do is wrong

WHEN Tony Blair made a speech last month outlining the values that inspire his government, the response ranged from mild embarrassment to vicious mockery. It wasn't a great speech and the prime minister didn't have anything very new to say, but it wasn't that bad either. However, when, just a few days later, Gordon Brown set out the (questionable) arguments that underpin his belief that there is no model for delivering health care with equity and efficiency that is superior to the National Health Service, he was heard with something close to awe. The prime minister, for all his rather remarkable political gifts, is widely held, though unfairly, to be vacuous, while his chancellor, everyone agrees, is "formidable". Even when people disagree with Mr Brown, they don't doubt his high seriousness and unrelenting moral purpose.

By common consent, Mr Brown is the intellectual driving force behind New Labour. While Mr Blair soothed and wooed middle England, it was Mr Brown who toiled to set in place the policy foundations that would define and sustain the party in office. Above all, it was Mr Brown who understood that without the platform of economic stability, nothing else that a Labour government wanted to do would be possible. Earning a reputation for prudent management of the nation's finances was the essential precondition for improving public services and ameliorating poverty. Mr Brown does indeed deserve much credit for this. He has played a long game and played it well. Yet he now finds himself in a somewhat paradoxical position.

The week after next, Mr Brown will deliver what he will almost certainly present as a budget to restore the National Health Service to its proper status as "the envy of the world". He will do this by confirming previous plans to continue pumping ever-increasing sums of money into the ailing system. Since 1999, the government has been committed to real spending increases of 6.4% a year until 2004—a rate of increase matched only in one other five-year period (1971-76) during the 54-year history of the NHS. He is also likely to signal that he intends to honour the prime minister's rash pledge before the last election to keep the money tap open until Britain's previously parsimonious spending on health more nearly matches the European average of between 8% and 8.9% of national income, depending on which measure is used. If the latter figure is taken as the target, even after 2004 Britain will still be some £10 billion shy of what's needed. It is the probable demands of these "out-years" rather than the current spending plans that have driven Mr Brown to start preparing the ground for tax increases.

Although most of the MPs on the benches behind Mr Brown are wriggling with excitement about the prospect of a return to the politics of tax and spend, Mr Brown is a good deal less happy. He feels, with some justice, that he has been bounced into this by Mr Blair. During the spending review before the last election, he described the NHS as a "bottomless pit" that had swallowed emergency cash injections to little effect. He was also frustrated by the abject failure of the government in its first three years to come up with a modernising strategy for the NHS that would justify a relaxation of funding. Despite this, Mr Brown has decided to make the best of a bad job and claim for himself whatever political credit may be going for saving the NHS. Even though the most recent figures suggest that waiting lists may finally be edging down, he knows it's a gamble. The health reforms that the government has belatedly embarked upon (extending many of the Tories' previously derided ideas about creating an internal NHS market) are promising but unproven.

To try and hedge his gamble, the chancellor is doing everything he can to close down the growing debate over the future of health care that has been triggered both by the failings of the NHS and the prime minister's foolhardy promise to deliver a world-class health system. At least one argument is already won: nobody disputes that the NHS is underfunded. But there is still plenty of room for disagreement as to whether the centrally controlled NHS is capable of turning itself into a responsive, patient-led health-care system regardless of how much money is lavished on it and whether taxation should be its only

source of funding. Mr Brown is desperately keen to get what he calls “a consensus” on these two points: namely, that the money from tax increases will be well spent and that continental-style social insurance is an irrelevance.

So macho

To that end, Mr Brown has been deploying his great seriousness of purpose like a piece of heavy artillery. Unsurprisingly supported by the findings of a report into NHS funding undertaken at his behest by a retired banker, Derek Wanless, Mr Brown has poured scorn on all the alternatives to a tax-funded NHS providing “free” health care at the point of use. Many of the criticisms that Mr Brown makes of other models are well made— insurance-based systems are often inefficient because of high administration costs and inequitable because they impose the greatest burdens on the sick and elderly; while the compulsory social insurance found in France and Germany has contributed to labour-market inflexibility and thus unemployment. Yet there is something unattractive about the chancellor's assumption that anyone who disagrees with him is either frivolous or malign. Mr Brown points out that when the first draft of the Wanless Report was published in the autumn, he challenged those with other ideas to say what they were, but that none has been offered. The macho implication is that nobody has dared to take the bulldozing chancellor on. The danger for Mr Brown is that a “consensus” born in this way will prove fragile should the money he is now pouring into the NHS not go a long way towards fixing it: and the chancellor's awe-inspiring seriousness could come to be seen as something altogether less admirable.

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Executive pay

Wallowing in wages

Apr 4th 2002 | NEW YORK
From The Economist print edition

This year, the pay of America's chief executives may fall for the first time in years. Proof that the system works?

Get article background

APRIL brings pay season, a time of rituals in the American business calendar. First comes news that chief executives have paid themselves even wilder sums of money than before. Next, there is outrage. Lastly comes the familiar sound of snouts returning to the trough for another feed. This pay season, however, promises exciting changes to American custom. As profits tumbled last year, chief executives may have actually taken a pay cut. Executive-pay consultants have wasted no time seizing on the evidence. There had been worries that compensation would only track performance when everything was rising, says Ira Kay of Watson Wyatt, a consultancy. This year, he asserts, will prove the doubters wrong.

There is evidence to support this view. After collecting $31.5m between them in 2000 from an incentive plan linked to the company's share price, Boeing's top five executives had to live off their salaries, bonuses, restricted stock and perks alone last year, as the incentive plan failed to pay out a cent. At the big Wall Street brokerages, bonuses have tumbled with profits and reputations. Sanford Weill, the chief executive of Citigroup, took an 83% pay cut, leaving himself a still-handsome $36.1m. The four top dogs at AOL Time Warner, a media giant, performed so lousily that they have foregone bonuses altogether. Of 100 big companies surveyed by William M Mercer and the *Wall Street Journal*, 59 cut chief-executive bonuses this year. The median (ie, middle) bonus fell by 13.2%.

Not everyone is convinced by these numbers. One worry is that executive pay has risen to such heights that the bad times look rather like the good times used to: the median total compensation in the Mercer survey was still $2.16m. Nor has pay fallen by nearly as much as profits have done. The total compensation of chief executives is down by 2.9% on a year ago, but after-tax profits fell by nearly 50% last year among the companies included in the S&P 500. Some components of bosses' pay, such as basic salaries, actually rose healthily on the back of this dreadful performance. Most important of all, says Nell Minow of The Corporate Library, a watchdog website, top executives earn most of their money these days from large grants of stock options, which are typically exercisable over ten years. Shareholders should therefore pay the most attention to how pay changes over the medium term.

Here, the picture is more mixed. The four punished and bonusless AOL Time Warner executives, for example, each nonetheless collected stock options valued at around $40m per head. Pay consultants also admit to inflation in parts of the pay package not captured by their surveys, such as perks. Coca-Cola demands that both its boss, Douglas Daft, and his wife always travel in the company jet, a privilege that cost the company $103,898 last year. Even the perks have perks at Coke: this generous sum includes taxes reimbursed to Mr Daft. At AOL Time Warner, Gerald Levin and his anointed successor as chief executive, Richard Parsons, each got $97,500 in “financial services” (for tax-return preparation and financial planning, says the company).

Some of the financial services that American companies offer their top chaps would put regular banks out of business. Compaq, a computer maker, has agreed to forgive a $5m loan it extended to its boss, Michael Capellas, and is providing him with a new loan to help with the tax bill. Bernie Ebbers, the chief executive of WorldCom, a troubled telecoms firm, borrowed a princely $341m from his employer, on which he is paying a little over 2% in interest.

Pension arrangements, which the consultants' surveys also fail to capture, are suffering rampant inflation as well. At almost all big American companies, executives belong to pension plans other than the basic company scheme. At first, says Graef Crystal, a former pay consultant turned industry scourge, these plans treated executives and regular employees even-handedly. Gradually, however, the ordinary company pension plan and the executive plan have parted ways.

Thus executives now often count more of their total compensation (including bonuses and other incentives) as the basis for their pension, or take more credit for shorter periods of service and earlier retirement. After just eight years of service as IBM's chief executive, Lou Gerstner will be retiring on well over $1m a year. The ever-generous Coca-Cola has a three-tiered pension plan system, including a supplemental plan for executives and a “key executive plan” for its top bosses. This plan includes early retirement after just ten years of service, along with other benefits.

Pay consultants defend this largesse by pointing to the market. Choosing the right chief executive matters more than ever to a company's performance and value, they say. The market in chief executives is both liquid (they change jobs every 5.7 years on average) and transparent, because pay and benefits are fully disclosed to shareholders. When paying the chief executive $100m a year or so, shareholders are making a rational bet: if the boss gets it right, the company's value could increase by $10 billion. All fine, if true. Yet it is not entirely clear that the market in American company bosses is working quite so cleanly as it should.

You'll be hearing from my lawyer

Start with contract negotiations. Typically, says Robin Ferracone of William M Mercer, the board must deal with the chief executive's lawyer, one of a handful of specialists in the field. These lawyers, says Ms Ferracone, are “very, very aggressive”. On top of his pension, worth around $9m a year, Jack Welch, the retired boss of General Electric, is “required” under the terms of his contract to consult for the company for the rest of his life, for which he will charge a daily rate of $17,000. Mr Gerstner's contract provides him with ten years' consultancy work following his retirement. Use of company aircraft, cars, offices, apartments, financial planning and even home-security services are thrown in. “People have a certain pride in pigging out,” says Mr Crystal. “It's a measure of their worth.”

Against this onslaught stands the compensation committee of the board of directors. In theory, this committee draws on the expertise of an outside pay consultant, who brings the tools of science to the task of determining an appropriate market rate for the boss. In practice, agree Ms Ferracone and Watson Wyatt's Mr Kay, in 60% or more of big American companies it is the company (and thus ultimately the chief executive) and not the board that chooses and employs the pay consultant. A survey by *The Economist* of the top 25 American companies by market capitalisation found that, at five of the 11 companies that replied, the consultant is employed by the company rather than the board.

This does not mean that abuses inevitably follow, but it does give companies the opportunity to intervene and apply pressure to the consultant. Recently, says one top pay consultant, the relationship between the board and the outside consultant has become even more distant at the biggest companies: some firms have taken to recruiting their own in-house pay consultant, who works with the outside consultant and thus prevents him from ever presenting directly to the board.

On the whole, Americans suffer neither envy nor egalitarian yearnings when gazing at the fortunes of their business leaders. But they do like to think that their market-based system works fairly. The collapse of Enron, Andersen and other once-prestigious companies has rocked that faith. Companies and their shareholders ought to be trying their best at the moment to restore confidence. Besides, the boss's pay is no small amount of shareholders' money, especially in these lean times. On Mr Crystal's calculation, given current trends, by 2021 there will emerge a big American company where the boss is paid more than the firm's entire annual sales. If that is market forces at work, then market forces had better be ignored.

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The Hewlett-Packard/Compaq merger

Lawyers' poker

Apr 4th 2002 | SAN FRANCISCO
From The Economist print edition

Walter Hewlett raises the stakes with a lawsuit. He's playing a dangerous game

Get article background

WHEN Walter Hewlett convened a press conference to announce that he was not conceding defeat in the proxy fight over Hewlett-Packard's merger with Compaq, the walls of the room were lined with smirking lawyers. Their presence was clearly no idle threat. On March 28th Mr Hewlett, son of one of HP's co-founders, filed suit with the Chancery Court of Delaware, where HP is incorporated. The aim of the complaint is to invalidate all votes in favour of the merger or, at the least, to force a new vote on the deal, which shareholders appear to have approved by a slim margin (less than one percentage point, according to Mr Hewlett; more than that, says HP). The final tally may not be known for several weeks.

If the merger is approved, Mr Hewlett's lawyers argue, it will be only because HP's management acted improperly. For a start, it “engaged in a series of deceptions”, the lawyers say, by declaring that the deal would yield at least $2.5 billion in cost savings in the first two years, and that the companies would lose no more than 5% of their combined revenues and lay off only 15,000 of their 145,000 employees. In fact, Mr Hewlett argues, HP knew it would be able to meet its financial projections only by cutting 24,000 jobs.

More seriously, the complaint alleges that HP obtained votes by questionable means. Mr Hewlett claims that HP forced Deutsche Asset Management, a unit of Germany's Deutsche Bank that holds 1.3% of the firm's shares, to change its mind by threatening to withhold business in a hastily arranged telephone call on the day of the vote. “Deutsche Bank was led to understand that if it did not switch its votes to favour the proposed merger, its future business dealings with HP would be jeopardised,” the filing states.

If this were proved, HP's management would indeed be in hot water. And, given the narrow margin of victory, Mr Hewlett has every right to have a court take a close look. But he underestimates a grave risk: that a legal fight will prove a feast for the company's competitors, even if it lasts only a few weeks. (The trial date is set for April 23rd, and it usually takes Delaware's Chancery Court eight weeks to make a decision.) Already, according to a leaked internal memo, HP's IT-services unit has lost business because of the proxy fight.

HP's top brass has clearly had its fill of Mr Hewlett: on April 1st, the board decided not to nominate him for re-election. Still, Mr Hewlett deserves credit for having started a fight that provided shareholders with more information than they would have otherwise received, and for having forced HP's managers to think harder about what they were trying to achieve.

Even if Mr Hewlett wins in court, however, a prolonged lawsuit would seriously damage the company. If he cannot prove his case quickly, he should take a leaf from Al Gore's book and recognise when it is time to stop fighting.

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Wireless networking

Making Wi-Fi pay

Apr 4th 2002
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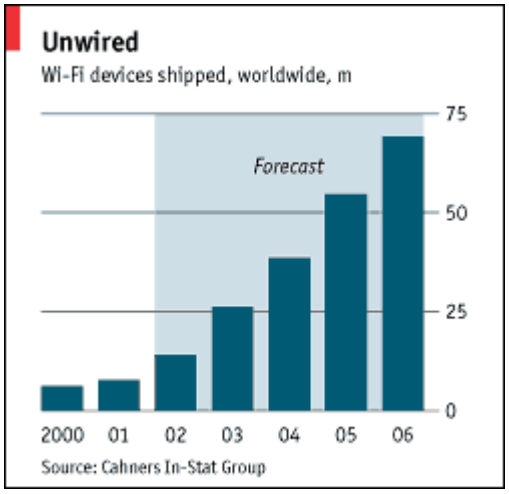
Will enthusiasm for wireless networking translate into profits?



AS WIRELESS operators around the world struggle with the transition to “third-generation” (3G) cellular networks, another wireless technology is taking off on its own. Wi-Fi, also known as 802.11b, uses unlicensed radio spectrum to enable computers within a few metres of a small base-station to share an Internet connection. Unlike 3G, Wi-Fi is cheap, fast and works today. Base-stations are popping up in homes, offices, airports and cafés, and Wi-Fi capability is fast becoming a standard feature of laptops. In America, the technology has inspired a mania unseen since the early days of the Internet boom.

Attempts to build large-scale Wi-Fi networks so far have fallen into two camps: top-down networks, built in the traditional way by network operators who then charge fees for access, and bottom-up networks, built by loose federations of enthusiasts who offer free access to all.

Neither approach is ideal, however. The problem with top-down networks is that users will pay only to use a network with good coverage, and the market is highly fragmented. Different airports and hotels are served by different operators. No single operator provides wide coverage, so Wi-Fi fans need multiple accounts and passwords to stay connected.

The bottom-up approach has problems too. Enthusiasts are building free networks in cities around the world. Stick a Wi-Fi antenna on your roof, enter your location as a “hotspot” in an online Wi-Fi directory, and passers-by can use your Internet connection. At PC Forum, a recent industry conference, Cory Doctorow, a Wi-Fi enthusiast who lives near Silicon Valley's Highway 101, reported a regular stream of cars pulling up outside his house as itinerant workers stop to check their e-mail. But this co-operative approach tends to break down when a technology goes mainstream. Make a free network available to everyone, and some people will abuse it to hog bandwidth or send junk e-mail.

If neither top-down nor bottom-up is the right approach, then what is? Boingo Wireless, a Wi-Fi start-up, hopes to get the market moving by acting as an aggregator. Its log-on and authentication software provides a wrapper around existing operators' networks, so that users can access all of them using a single account; subscription revenue is split with network operators. So far, Boingo's aggregated network covers ten airports, 400 hotels and 100 cafés in the United States.

This is clever, but the approach taken by Joltage, another Wi-Fi start-up, is cleverer still. Its aim is to increase the number of Wi-Fi hotspots by providing a commercial incentive for people to set up new ones. Joltage's free software turns any Internet-connected PC with a Wi-Fi capability into a hotspot on the Joltage network. Subscribers can use any Joltage hotspot, and their subscription fees are shared with the owners of the hotspots they use. This provides an easy way for a café, hotel, airport or railway station to set up as a commercial Wi-Fi operator—provided Joltage can achieve critical mass.

Sputnik, another Wi-Fi firm, has also produced free software that turns PCs into Wi-Fi hotspots. But Sputnik's approach is closer to that of the free Wi-Fi enthusiasts than Joltage's. Anyone who sets up a Sputnik hotspot gets free use of the entire Sputnik network; no money changes hands. The company plans to make money by charging for a high-security corporate version of its software.

So is the stage set for a repeat of the boom in fixed-line Internet access? Not quite. One problem is that Wi-Fi networks rely on existing high-speed fixed connections to the Internet. Wi-Fi's future thus depends on cheap, ubiquitous broadband, which has yet to materialise. Furthermore, sharing a connection is frowned upon by broadband-service providers, though some providers are thinking of introducing pricing plans that explicitly allow connection-sharing over Wi-Fi. Another problem is that commercial use of unlicensed spectrum is prohibited in some countries.

Although zealots like to think Wi-Fi will kill 3G, it seems more likely that Wi-Fi and cellular networks will work together. Forthcoming plug-in cards for laptops can use Wi-Fi if it is available, and fall back to a slower cellular connection if not. MobileStar, a Wi-Fi operator, was recently taken over by VoiceStream, a cellular operator, which plans to offer just such an integrated service. Evidently Wi-Fi, like the Internet before it, has begun to change from a hobbyist's toy into a grown-up industry.

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Argentina's battered companies

The search for survivors

Apr 4th 2002 | BUENOS AIRES
From The Economist print edition

Even Argentina's best-run companies are struggling to survive the chaos

LIKE everyone else in Argentina, the managers of its companies are anxiously awaiting the decisions of an IMF team that arrived in Buenos Aires this week. The current crisis has come after more than three years of recession. So, despite a controversial new bankruptcy law passed in February, which gives firms much more time to string along their creditors—and which the IMF wants repealed—businesses have continued to fail. Even some of the country's best-run blue chips—especially those whose revenues are in devalued pesos but whose debts remain in dollars because they borrowed abroad—are throwing up their hands and telling creditors they can't pay. This week, Telecom Argentina became the biggest of the country's privatised utilities to do so, halting repayments of principal on its $3.4 billion of debts.

When Argentina eventually emerges from chaos, its devalued currency, well-educated population and plentiful energy supplies should make it a great place for business. The sectors likely to produce winners range from agriculture and food to steel making and tourism (Argentina's stunning scenery, once expensive to visit, is now affordable). But which companies will survive the current devastation?

The most obvious candidates are those that were already in good form when the crisis broke late last year. A good example is Quilmes, Argentina's biggest drinks group, which had been forced to restructure in the mid-1990s when foreign rivals began invading its home market. An alliance it had formed with Heineken, a Dutch brewer, helped it become much more efficient in both its Argentine plants and a string of breweries and bottlers it subsequently bought across Latin America. Last year, Quilmes's staff fell by 1,000 to 6,000. The resulting cash-flow improvements will allow it to cancel half of the debt that expires this year, says Carlos Olivieri, the chief financial officer. If things worsen, the group could raise financing via its foreign subsidiaries, which are largely debt-free.

Grupo Assa, a computer-services company, also stands to benefit from having axed costs before the latest meltdown, and from a (so far) successful foreign expansion. Last year, while government ministers were promising an imminent recovery, Assa's sceptical bosses made big job cuts, sold part of its headquarters (while there were still buyers for commercial property in Buenos Aires) and thus cut its borrowing. Its success in winning customers in neighbouring countries means that it now has many customers not affected by Argentina's crisis. To keep those that are, Assa has offered price cuts, says Roberto Wagmaister, its president.

With little prospect of fresh loans in the coming year for most firms, very tight cash management will be the key to survival, says Alejandro Preusche of the Buenos Aires office of McKinsey, a consultancy. Those that cannot survive on their internal cash flow must seek it from other firms. In Argentina's last big economic crash, in the 1980s, says Mr Preusche, cash-generating firms lent their surpluses to those caught short. It was only with the growth of bank lending in the late 1990s that this died out. Already, McKinsey has begun bringing together cash-rich and cash-poor clients to revive this practice.

Once the economy stabilises, foreign capital should start to flood in, to refinance those companies that survive the short-term liquidity squeeze. Some big Brazilian firms have started scouting around Argentina, seeking bargains. But, given the huge losses amassed by Chilean firms that invested in Argentina before the crisis, most will wait until the chaos has clearly passed before opening their cheque-books.

For those big companies—such as the privatised utilities—whose dollar debts are so great that no amount of skilful cash management will suffice, and whose survival is crucial to the economy, perhaps the multilateral lenders could help. Some Argentine economists are proposing to the IMF that it, or another international institution, adopt something like the “London approach”. Under this, the Bank of England

has traditionally rounded up the creditors of troubled British firms to thrash out a restructuring, without the need for formal bankruptcy proceedings. Since this plan would not involve the IMF in disbursing money, it need not wait until the Fund concludes its prickly negotiations with Argentina's thoroughly bust government.

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Electrolux

Brand challenge

Apr 4th 2002 | STOCKHOLM
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Can a new chief executive push an old brand to better performance?

IT IS hard not to be impressed by the latest gizmo from Electrolux, the world's biggest white-goods producer. The Trilobite, named (oddly) after a long-extinct creature, is a robotic vacuum cleaner that uses sensors to navigate around the house, leaving its owner free to sip Chardonnay and wonder why it took so long to automate such mundane tasks.

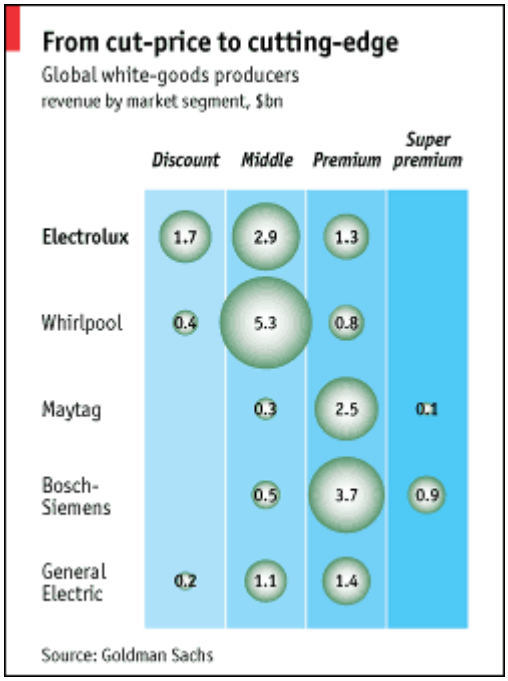
The project was completed on the watch of Hans Straberg, head of the Swedish company's floor-care division. Later this month he takes over as chief executive. He succeeds Michael Treschow, who is leaving to take the top job at Ericsson, a mobile-telecoms giant. The Trilobite aside, Mr Straberg, who is only 45 years old and barely known outside Electrolux, faces a tough challenge on several fronts.

Mr Treschow is a hard act to follow. He was quietly successful at cutting costs and selling businesses to focus on three activities: consumer white goods, outdoor products such as lawnmowers, and machines for more demanding professional users. Investors liked what they saw and Electrolux's shares performed well until last year. But the cost-cutting is largely over—as are the gains that Mr Treschow enjoyed thanks to a weak Swedish krona. Mr Straberg will have to do something more profound to keep Electrolux growing.

Like other consumer-goods groups, Electrolux is vulnerable to the economic cycle. During the recession of the early 1990s, its profits collapsed. Falling demand last year, combined with a bungled fridge-factory expansion in America, caused profits to tumble once again, to SKr5.2 billion ($500m). There has been little sign of any improvement in demand in America or Europe—a difficult background against which to take the helm.

Still, Mr Straberg knows what his biggest task will be: tackling Electrolux's sprawling portfolio of brands, more than 50 of them in all. In Europe it owns Zanussi and AEG, in America Frigidaire. It also owns numerous local brands, such as Tornado vacuum cleaners in France.

As things stand, this plethora of brands is a problem. Electrolux must maintain many complicated manufacturing operations to support them. Moreover, unlike competitors such as General Electric or Maytag in America and Bosch-Siemens in Europe, Electrolux is spreading its efforts across the entire consumer-goods market, marketing products in the discount, middle-market and premium segments (see chart). That strategy arguably damages its brand-appeal to consumers.



Mr Straberg insists that Electrolux is well positioned to deal with this criticism. The firm, he says, now understands that better brand management is its best defence against the commoditisation of its products by low-cost Asian manufacturers. “Our aim is to become a reliable and trusted partner with our customers and retailers,” says Mr Straberg. “That means we need a few strong brands. We can't support too many.”

An important step has been to buy back the rights to the Electrolux brand in the United States. Bizarrely, these were sold in the 1960s and the proceeds used to expand outside Sweden. The company now intends to develop Electrolux as a global brand.

However, Mr Straberg acknowledges that rationalising the brands can be dangerous if done too quickly—so the rebranding will be more evolution than revolution. The Electrolux name will become the “master brand”, but the company will keep strong local brands, such as the Flymo lawnmower in Britain.

Mr Straberg wants to repeat throughout the company his main achievements in the floor-care division. There, he closed inefficient factories, concentrating production where returns were best. He also modernised manufacturing techniques, putting more emphasis on final assembly than on vertical integration. Electrolux's vacuum-cleaner factory at Västervik in southern Sweden is a good example of the transition towards rebranding, as well as a model of flexibility. Its production lines can be reconfigured in a matter of minutes to reflect demand for particular branded models. Can this be reproduced across Electrolux? Anything short of that, and Mr Straberg will have a hard time matching his predecessor's record.

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Indian telecoms

Connecting competition

Apr 4th 2002 | DELHI AND MUMBAI
From The Economist print edition

Private-sector companies are moving in, despite the hazards

IN A country where half the children under four are undernourished, telephones are a luxury. India has about 42m connections, 6m of them to mobile phones—not many for a country of a billion people. To entrepreneurs, that undersupply promises growth. India talks about mobilising 1 trillion rupees ($20 billion) of investment in telecoms over the next five years.

Private operators have made mobile telephony the fastest growing sort in India. Now they are venturing into more traditional areas, such as long-distance and international fixed-line calling. In January, Bharti Tele-Ventures offered the first challenge to the long-distance monopoly of the state-owned operator, BSNL. Tariffs duly fell by over 60%. The monopoly on international calling ended on April 1st, prompting a 20% drop in the cost of calling the United States.

This is a boon for consumers, who have been paying among the world's highest tariffs. But will competitive opportunities be profitable ones? The newcomers must cope with entrenched public-sector incumbents and a regulator that seems uncertain of the balance it should strike between encouraging investors and keeping telephony affordable for India's masses.

Three main private groups are braving the hazards. In addition to Bharti, which issued its first shares to the public in January, they are Tata, a venerable industrial house, and Reliance, a brash petrochemicals giant. There are others: Hutchison Whampoa of Hong Kong has the second-biggest mobile business; and Hughes Tele.com, a partly American-owned venture, offers basic service in Maharashtra, which includes Mumbai, India's commercial capital. Neither intends to stray from the “access” business of connecting callers with each other.

The big three do, but their emphases vary. All offer both fixed-line and mobile services. All plan to offer international and domestic long-distance services, in part using their own fibre-optic networks. Prakash Bajpai, boss of Hughes Tele.com, notes that Indian firms are putting money into telecoms infrastructure at a time when operators elsewhere are pulling out. This carries risks, however. “The kind of oversupply that crashed world rates could soon be seen in India,” says Rahul Singh, an analyst at SSKI Securities in Mumbai.

“The kind of oversupply that crashed world rates could soon be seen in India”

Bharti is the most cautious of the bunch, and is generally regarded as the cleverest. Apart from mobile, its bets are fairly small. It offers basic fixed-line services in one central Indian state, and has plans to cover Delhi and three other states. It has installed 11,500 kilometres (7,150 miles) of fibre, a modest network that nonetheless covers 80-85% of the value of long-distance traffic in India, according to Akhil Gupta, a managing director.

Even so, analysts worry about it. In seven of the 15 areas where it has mobile licences, Bharti will be the third or fourth operator, condemned at first to spending heavily to attract customers who are likely to be fickle. Mr Singh expects Bharti barely to break even by 2004.

Tata is hoping to do better. It made a splash in February by winning a bid for VSNL, the state-owned international carrier and India's biggest Internet service provider. This adds bulk to a portfolio that includes new but ambitious ventures in a variety of businesses, including network-infrastructure and mobile.

This strategy demands co-ordination, which does not yet look like a Tata strong point. Its telecoms ventures are split among four main companies, each with its own board. Tata's mobile business, its main

access to customers, is through a three-way (soon to be four-way) joint venture in which it will own less than 20%.

This lack of cohesion should not be a problem for Reliance, the only private-sector Indian company among the world's 500 biggest. It intends to use its financial muscle to elbow its way into the unfamiliar telecoms business. The centrepiece of its scheme is a 60,000-kilometre web of fibre linking 115 cities, by far the most extensive of the planned private networks. No one doubts Reliance's talent for using its bulk to make money: it built and operates profitably one of the world's biggest refineries. But the company may find it hard to develop the flair required to handle millions of retail customers.

Perils of populism

Without regulatory favouritism, argue its rivals, Reliance would flop. Unlike Bharti, Reliance plans to reach consumers mainly through its fixed-line licences. It will thus be the main beneficiary of a rule that allows holders of fixed-line licences to offer their customers “limited mobility” (wireless connections within a certain area). Mobile-phone companies fear that this provision will allow Reliance and other companies to compete directly with them without having to obtain costly mobile licences.

Because the telephone regulator wants to be popular, other problems arise. Although competition is driving down long-distance rates, and thus the revenue share that basic fixed-line operators receive, the regulator has not allowed local tariffs to rise to compensate. Unless this is corrected, says Mr Bajpai of Hughes, “the industry will not survive.” Moreover, newcomers are bitter about their treatment at the hands of the public-sector former monopolies, which still control access to most customers and infrastructure. Charges of regulatory bad faith are one reason that foreign investors have largely stayed away from India.

The big three private operators are undeterred. Despite their doubts about the regulator and the incumbents, they seem to be convinced that the government wants to encourage competition. Indians hope they are right.

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Face value

Does size matter?

Apr 4th 2002
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Jean-Martin Folz of PSA Peugeot Citroën defies conventional car-industry wisdom

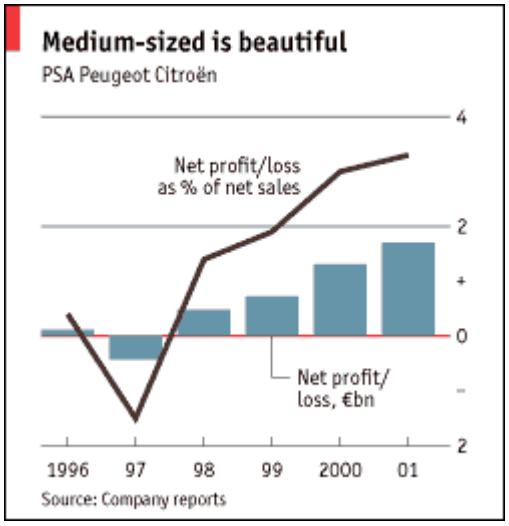
THE car industry is famously incestuous. In Detroit, for example, top executives who have spent decades loyally serving their company think nothing of hopping to a rival across town. So is there a lesson in the fact that the two hottest bosses in the business, Carlos Ghosn of Renault-Nissan and Jean-Martin Folz, of PSA Peugeot Citroën, are outsiders? Both have defied the doubters who thought their companies were doomed, by turning round their fortunes rapidly. Mr Ghosn was at least on the fringes of the industry (working for Michelin, a tyre maker, before joining Renault), but Mr Folz became boss of Peugeot in 1997 after a career in sugar and aluminium.

Maybe the real significance is that they are both French. Mr Folz has fallen in love with the car industry because, unlike dull commodity sectors, it combines so many different elements, from complicated manufacturing to design flair. “It's capital-intensive, it's people-intensive. But it's also about a fashion product,” he says. “You never know in advance how a model will sell.” One of the secrets of the recent success of both Peugeot and Renault is that they have embraced the fashion side of the business, with rapid development of seductive new models backed by sexy advertising, typified by Renault's “size matters” campaign.

Before becoming chairman and chief executive, Mr Folz spent two years as deputy to the previous boss, the flamboyant Jacques Calvet. When Mr Calvet started musing about running for president of France, the Peugeot family (which owns 38% of the voting shares) got the impression his mind was elsewhere, and eased him out to make way for the dauphin. The newcomer had used the two years as second-in-command to groom himself for the top, setting foot in all 14 factories and studying every market where the cars were sold.

Two days after he took over, Mr Folz addressed a meeting of the company's top 250 managers beneath a big screen bearing the words “Pourquoi changer?” (Why change?) His audience relaxed as he listed the good things about the company: technical competence, well-known brands, committed long-term shareholders, loyal employees and so on.

But the atmosphere chilled as the small bespectacled graduate of two of France's top engineering schools dissected the group's “worrying weaknesses”: a lack of innovation, a lack of growth and insufficient profits. On innovation, for instance, Peugeot had been outstripped by Renault, whose Espace had revived the firm's fortunes in the 1980s. Meanwhile Peugeot chugged along, its sales stagnant for 15 years. Mr Folz's concluding slides showed how, in terms of return on capital, Peugeot was bottom of the league of car companies.



At that time, Peugeot was being lumped together with Fiat as the European car maker most likely to be swallowed up, both being weak contenders heavily dependent on their national markets in a world of globalising giants. BMW had already gobbled Britain's Rover, and Daimler-Benz was preparing to swallow Chrysler in pursuit of global scale. By comparison, Peugeot was big in Europe,

which accounted for over 80% of its sales, but absent from America and barely present in other parts of the world.

With his outsider's view, Mr Folz was clear about how to escape from the relegation zone. The Peugeot group then was run by separate baronies, with little co-operation between Peugeot and Citroën, and no strong central direction. With the slogan “one company, two marques”, Mr Folz fused many of the two companies' activities to get economies of scale.

Nowadays, beneath their metal skin, Peugeot and Citroën cars share the same engines, gearboxes and brakes. Peugeot's factories, one-third idle when he arrived, now run flat out, with a third eight-hour shift allowing them to operate at 115% of their installed two-shift capacity. Popular models have enabled Mr Folz to raise output by more than 50% to a little over 3m cars a year, with a target of 4m by 2004. The introduction of a third shift has meant this expansion could be achieved without heavy investment. Peugeot now boasts the best total shareholder returns of any big European car company.

There is, however, more to Mr Folz's vision than frugal investment and humming factories. He also relies on alliances with other car companies. Peugeot shares a factory with Fiat, making light commercial vans. It has a joint venture with Ford, developing and making diesel engines, and even shares a big petrol engine with its arch-rival, Renault (which this week confirmed that the French government will sell around 11% of its 37.8% stake in the company). Its latest alliance partner is Japan's Toyota, with which it will produce a small car for the European market.

Back to America?

Inevitably, this link-up with the world's third-biggest car company raises questions about PSA Peugeot Citroën cosying up to the Japanese, just as Renault has so successfully done with Nissan. Mr Folz insists that the plans go no further than any typical joint venture. But another round of consolidation in the European car industry—for instance, General Motors choosing to absorb Fiat, its European affiliate—could put pressure on Peugeot to find a full-time partner.

There are dangers, too. Mr Folz is seeking to expand in the troubled South American markets, which have been part of Fiat's downfall. He does not rule out re-entering the American market, which Peugeot quit in the late 1980s: one factor tempting him back may be the recent success there of Japanese and South Korean car makers. But it takes deep pockets or a strong partner to tackle the world's biggest single car market, as Daimler-Benz found when it bought Chrysler. The chances are that Mr Folz will stick to his principle that being a European middleweight champion is good enough.

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Container trade

When trade and security clash

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AP

The shipping container has revolutionised world trade. Now it is a potential carrier of terrorists and their weapons

LAST October, a discovery at the southern Italian port of Gioia Tauro shook the foundations on which world trade has grown so rapidly in the past half century. A suspected al-Qaeda terrorist was found inside a container. The Egyptian suspect, who later disappeared while on bail, was equipped in comfort for the duration of the container's intended sea voyage from Italy to Halifax in Canada. He carried plans of airports, an aviation mechanic's certificate and security passes. Intelligence sources say other containers similarly fitted out were found at the Italian port.

This alarming discovery underlined the tension between the needs of international security and those of global trade. The Egyptian stowaway horrified America's security establishment. When officials looked at studies carried out before September 11th on the possibilities of using a container to smuggle nuclear-bomb components into the United States, their fears only grew. For the technology that has transformed trade in legitimate goods can also easily be used for illicit transport of people and materials.

Terrorists, American officials have come to believe, are aiming not just to cause death and destruction within the United States, but also to cripple the country economically by targeting or seeming to target its trade. If the al-Qaeda network is as sophisticated as some people argue, it may have noticed the vulnerability of the American economy to disruption of its industries' supply chains.

Most industries—whether Ford and General Motors, with their just-in-time manufacturing, or computer companies such as Cisco and Compaq, which ship parts in from Asia—have come to depend on global supply chains in which the humble container box is an important link. Every day, over 15m containers are moving around at sea or on land, or standing in yards waiting to be delivered. They account for about 90% of the world's traded cargo by value.

Invented during the second world war as an efficient way of moving military equipment up to the front line without tying down too many soldiers for loading and unloading ships, the container has become indispensable to world commerce. Today, containers have helped to make the distribution of goods so efficient that manufacturers have been able to reduce inventories to a bare minimum. Since 1980, according to Bob Delaney of Cass Information, a logistics company based in Bridgeton, Missouri, the ratio of inventory to GDP in the United States has declined from 25% to 15%. The total value of America's business inventory in 2000 was $1.5 trillion; without the logistics policies and programmes implemented in the past 20 years, it would have been $2.5 trillion.

All that would change if containers were screened, as airline passengers are. At the moment, inspectors examine only 2% of containers, and often only after the containers have already travelled hundreds of miles from a port to a big city like Chicago or Detroit. The potential damage that routine screening might cause was clear from the two-day wait at the American-Canadian border after September 11th: it nearly

caused chaos at Detroit's car factories, which rely on flows of parts from Canada. The burden and disruption of extra security would weigh heavily on a shipping industry that is already suffering from the economic slowdown.

High crime wave

The standardised container initially cut small-time cargo pilfering, long a plague in ports. But that proved short-lived. Thieves soon learned that, by stealing a full container (usually in transit), they could increase their own productivity, especially if they knew in advance what the contents were. The average value of cargo theft increased fivefold (to $500,000) between the 1970s and 1990s. Containers also turned out to be handy ways to smuggle drugs, contraband and illegal immigrants. A victim of its own success, the container offered criminals the same benefits as those enjoyed by ocean carriers and shippers: efficiency and security.

Government and industry have come up with some ways to combat this crime. Container seals have been made tougher. (Thieves have been known to empty an in-transit container with no outward sign of entry.) Shipping lines that take part in anti-smuggling programmes get faster clearance for their boxes. But more needs to be done.

So far, federal agencies and the container-transport industry have recognised the threat but done little of substance. Stephen Flynn, an influential security adviser at the Council on Foreign Relations, a think-tank based in New York, has been sharply critical of the government's approach to security. The two front-line services, the US Customs and the US Coast Guard, were seriously under-funded, argues Mr Flynn (himself a former Coast Guard commander), while the overall federal effort was undermined by feuding among agencies. Mr Flynn believes things may have improved since September 11th, but not enough to inspire confidence.

The experience of the carriers suggests that he is right. Despite a big security presence around ports immediately after September 11th, carriers say they have not yet suffered any serious disruption to containers entering or leaving the United States. The US Customs Service has increased border inspectors and equipped them with mobile radiation detectors; the US Coast Guard has boarded ships with armed sea marshalls; they have also demanded earlier notice of ship arrivals; and the government has provided some emergency funding to improve port security.

But containers are still rolling along much as before. This worries the industry's representatives. Chris Koch, chief executive of the World Shipping Council, a trade body based in Washington, DC, believes a further terrorist incident could lead to a bungled government response, jamming up the system. Even worse, he thinks, could be a failure to do anything coherent, followed by a complete shutdown of ports after an attack.

Trojan box

The American government is only just beginning to realise how vast and complex the container-transport industry is. Last year, the world's total movement in containers amounted to 72m TEU (“20-foot equivalent units”, the industry standard, even though containers are increasingly 40 feet, or 13 metres, long). H.P. Drewry, a shipping consultancy, uses a much larger figure, of 244m TEU, to express the number of containers handled in 2001 by all ports; this includes empty containers being repositioned and trans-shipped containers (usually dropped off by large container ships at large hubs for onward shipment by smaller feeder ships). Such numbers give some idea of the scale of the problem: how can 72m containers be monitored, let alone 244m?

In addition, the movement of each container is part of a transaction that can involve up to 25 different parties: buyers, sellers, inland freighters and shipping lines, middlemen (customs and cargo brokers, for example), financiers and governments. A single trade can generate 30-40 documents, and each container can carry cargo for several customers, thus multiplying the number of documents still further.

A typical large container ship can carry up to 6,000 TEU and generate 40,000 documents. In 2001, around 9m TEU arrived in America's container ports by sea, which translates into around 17,000 actual boxes a day. Many more arrive in America from Canada, mainly by train or truck.

The fact that containers are “intermodal”—ie, they can travel by sea and on land, by road or rail—means the system is difficult to regulate as it crosses jurisdictional boundaries. On a ship at sea, the container comes under the aegis of the International Maritime Organisation (IMO), a United Nations body based in London. On land—in a port, or on road or rail—it passes into the hands of national governments, which may have separate legislation for the different transport modes.

This creates a problem for the United States when it seeks to enact container security regulations internationally through the IMO. The IMO's writ ends at the shoreline. Whereas it can establish international rules for the identification of ships and their crews, it cannot force ports to adopt new security rules. In olden times, colonial powers solved that problem by seizing ports (such as Gibraltar or Singapore) over which they wished to exercise control. That is hardly a possible solution today. The need now is for international co-operation on port security.

The problem is exacerbated because governments have tended to see port security as a poor relation of airport security. In Britain, for example, the Aviation and Maritime Security Act was passed in 1990 after a bomb exploded in a Pan Am plane over Lockerbie, but the “maritime” bit was an afterthought. It was added only to reflect concerns over two terrorist attacks on cruise ships in the Mediterranean (on *Achille Lauro* in 1985 and *City of Poros* in 1988).

To overcome this jurisdictional divide between land and sea, America may seek bilateral agreements with those countries from whose ports most of its containers arrive. The main thrust of thinking is that America should push its borders out and pre-screen containers in specially created security zones before they are loaded on to ships in foreign ports. This would be done with the co-operation of the foreign authorities, and with American inspectors present to help local officials. An arsenal of security measures would be deployed—from x-ray machines in container terminals to transponders inside containers that would detect whether they had been opened in transit. These devices would broadcast a signal via satellite.

Robert Bonner, the head of the US Customs Service, has proposed that, to begin with, America should focus on the top ten container ports that trade with it, and should seek to funnel as many containers as possible through approved gateways. The top ten—which include Hong Kong, Rotterdam and Shanghai—handle around half of all America-bound containers; Hong Kong alone accounts for 10%. Under Mr Bonner's plan, they might increase that share markedly at the expense of smaller and higher-risk ports. But the United States is also considering proposals to help finance the extra security that would allow smaller ports to attain the necessary standards. This would help avoid any distortion of trade patterns that could add to the cost of running global supply chains.

America inspecting

Others, however, think that America should go further and extend its border controls to the point of origin: the factory or warehouse where the container is first filled and sealed. Containers arriving at a port for loading on to an America-bound ship would not be accepted unless they met strict security criteria.

Rob Quartel, a former federal maritime commissioner, is among those who are in favour of such point-of-origin controls. He also wants the new border to be “electronic” rather than physical, creating a profile of the container's contents by sophisticated use of databanks, which capture and combine existing electronic documents from both government and commercial sources. To this could be added data from financial sources (for example, letters of credit held by banks) and documentation covering the inland leg of the container's journey.

Mr Quartel, now the chairman of Freightdesk Technologies, a freight-management technology specialist based in Vienna, Virginia, believes that America will be unable to impose security requirements on foreign shippers. But he thinks it could ensure that the receivers of containers in America realise they will face delays unless they know their customers and can validate cargo security. The idea fits into the generally accepted concept of fast and slow lanes, graded by security rating.

Not surprisingly, the private-security industry is eyeing such ideas with relish. Charles Upchurch, president of SGS Global Trade Solutions of New York, an inspection company, argues that government should use only accredited private firms for security audits and container inspections. Shipping-industry

representatives have been advancing their ideas in a seemingly endless round of hearings at the Senate and House of Representatives in Washington, DC, accompanying them with what must be a veritable container-load of papers.

Whatever scheme the United States finally adopts, government and industry agree that the aim should be to achieve the maximum security with the minimum disruption to trade. Security barriers can easily become trade barriers. The head of the Coast Guard, Admiral James Loy, explains: “To sustain prosperity, we open the gates. To ensure security, we close the gates. We clearly need to get beyond the metaphor of an opened or closed gate.”

Some logistics experts, such as Mr Delaney, argue that American industry could absorb the inevitable increase in inventory and logistics costs. A 5% increase in inventory would cost American companies an extra $20 billion, but that must be set in the context of the $1 trillion spent annually by American business on logistics. “Just-in-time will bend, but it will not break,” Mr Delaney confidently predicts.

He is, however, talking only about inland transport. Mr Koch of the World Shipping Council says that America cannot solve the container problem alone; it needs more help from the rest of the world than it cares to admit. The issue is not merely about boxes on ships, he argues, but about how the basic mechanisms of world trade can operate so that they maintain efficiency while at the same time enhancing security.

Trade flows depend on trust to flourish. But total trust is clearly impossible in a world where death can arrive hidden in a metal box. Only with clever use of technology and international co-operation are the world's big trading countries likely to avoid disruption and expense. Even then, it will be a question of minimising the threat rather than eliminating it.

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About sponsorship

Container routes

Drawing the line

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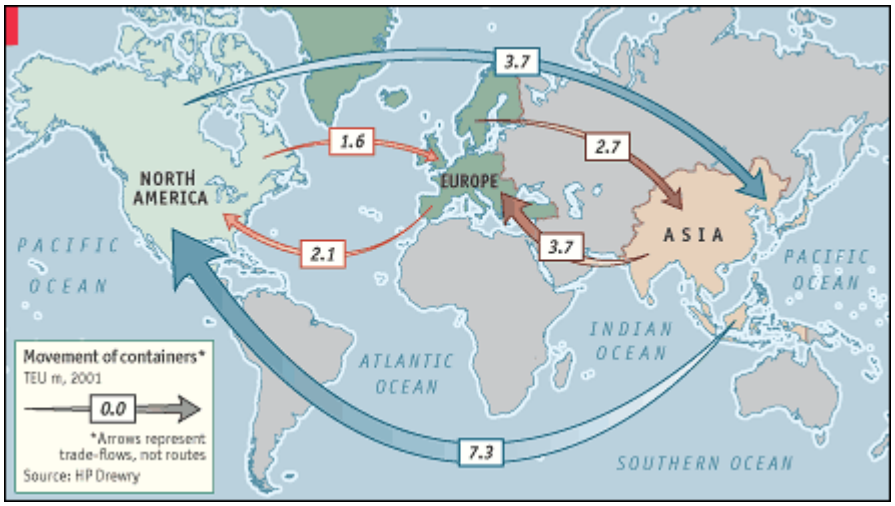
From The Economist print edition

The industry is in no mood to bear extra costs

THE container-shipping industry relies on three main trade flows: transpacific, transatlantic and Europe-Far East. As America has sucked in more imports from Asia, the transpacific route has become the busiest, reflected in the fact that West Coast ports of America, such as Los Angeles, are now the biggest in the country.

As trade grew in the late 1990s (apart from a hiccup caused by the 1998 Asian crisis), carriers sought greater economies of scale by using bigger ships. The result has been a boom in orders for new vessels. The container-ship fleet grew by 12% in 2001 and a further 10% expansion this year is expected by consultants at H.P. Drewry.



New boats with a carrying capacity equivalent to 30% of today's total are being built in South Korea and Japan in anticipation of a rapid growth of traffic. Ships with a capacity of 8,000 TEU will be launched soon in an effort to handle an expected doubling in the volume of overall trade within the next ten years.

However, in the short term, there is considerable overcapacity. Indeed, that is the main reason for the collapse in container freight rates over the past two years. On the key transpacific route, for example, rates have fallen by about 50% since 2000.

Cuts among friends

Traffic on most routes is organised within shipping alliances, which are often granted antitrust immunity because of the practical benefits they bring in terms of co-ordinated, regular and predictable services. These carrier alliances have responded to the overcapacity by laying up surplus ships, restructuring routes or suspending services. For example, the New World Alliance, which serves Asia-Europe trade, is cutting its capacity by 20% this year.

On the transpacific route, the 14 members of the Transpacific Stabilisation Agreement expect combined losses of $1.2 billion this year, on top of an estimated loss of $800m last year. H.P. Drewry forecasts a rise of only 1.3% in eastbound container traffic this year, after a 1% rise in 2001. Total cargo on the eastbound route in 2001 was 7.3m TEU compared with 7.2m in 2000 and with 3.7m TEU (3.8m in 2000)

on the much smaller westbound route carrying American exports. On the Atlantic routes between Europe and North America, 2.1m TEU moved westbound and 1.6m eastbound in both 2000 and 2001.

The huge investment needed in ships, containers, port equipment and IT in order to be a global container carrier has meant that the industry has been consolidating through a series of mergers and acquisitions. Ironically, the United States, which led the way in the early days of containerisation, has in recent years lost both of its global carriers in foreign takeovers: Neptune Orient Line of Singapore bought American President Lines, and a Danish conglomerate, Maersk, acquired Sea-Land, an industry pioneer.

Thanks to falling rates and the demands of consolidation, the container industry will find it hard to invest in new security devices. If governments want the trade to become more secure, they may need, at least temporarily, to pay some of the bill.

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Strategies for corporate and institutional banking

Big, bigger, biggest

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From The Economist print edition

Corbis

Market concentration will force middle-ranking banks to merge, shrink or die

UPHEAVALS and mergers among the top global banks will go on until four or five giant firms look something like Citigroup today. This is the horrible conclusion of a study on the future of European corporate and institutional banking by Oliver, Wyman, a New York firm of management consultants, and Morgan Stanley, an investment bank. Horrible, that is, for second-tier European banks, such as ABN Amro, Commerzbank and Société Générale, which may be champions in their own country (the Netherlands, Germany and France respectively), but which have tried in vain to break into the businesses offered worldwide by the top tier.

These businesses provide a better return on capital than does plain lending. For example, transaction services (handling cash and securities accounts) earns a return on capital of 50%, equity derivatives a return of 45%, and mergers and acquisitions a 35% return (see chart). A handful of familiar names—Citigroup, J.P. Morgan Chase, Goldman Sachs, Merrill Lynch—dominates these businesses, either because it takes a huge investment to build them, or because only top names are trusted. Yet only Citigroup offers corporate and institutional clients the full range of services, from loans to mergers and acquisitions, that makes it a true global behemoth. J.P. Morgan Chase, for instance, is strong in the debt and derivatives markets but weaker in investment banking.

Even without being a behemoth, there are five other strategies that larger banks and investment banks might usefully follow, says the report. They can: use their balance sheet to sell credit products (as do J.P. Morgan Chase and Barclays); specialise in equity and advisory work (Goldman, Merrill and Morgan Stanley); process transactions worldwide (State Street and Bank of New York); specialise in the transfer of risk; or aim to be an investment bank on a regional scale.

Second division

As for the second-tier banks that have tried to be global, they face a tougher task. Many have a home country, or a market share within it, that is too small to underwrite international success. To survive, they will need either to make cross-border mergers in Europe (which are not happening yet), or to get out of unprofitable businesses. Until this year investment banking's rewards looked so good—roughly a 20% annual return on capital—that European banks have continued to hurl themselves like moths at the flame. Two or three of them will have to go, says the report.

On cue, ABN Amro announced last week that it would cut back its investment banking in America. It has made gallant efforts to compete, but has been unable to build enough volume in transaction banking, asset management and mergers and acquisitions—or sufficient quality in corporate lending—to make those businesses competitive on a worldwide scale. Sergio Rial, on the board of ABN Amro, says defiantly that the bank is still strong in European and Asian equities. He also argues that a nascent equity culture in Europe, and particularly in Germany, will change the dynamics, favouring the nimble. “The pursuit of scale and market share is being challenged. It is not clear that there is a winning model,” Mr Rial says.

Other second-tier banks may be in a sadder position. For example, Commerzbank has spent three years looking for a buyer. Yet it continues to pursue an expensive adventure in equity markets, arguing that this is what its German clients expect. On April 2nd a group of Commerzbank shareholders, calling itself Cobra, ended two years of efforts to find the bank a foreign owner and disbanded.

In Europe, the market in which investment banks sell their services consists of around 3,000 companies and 600 investment firms. Investment banks earned revenues of *euro*82 billion ($76 billion) from selling them services in 2000, and *euro*76 billion in 2001. But over half this business comes from the biggest 250 companies and 100 investors, which prefer relationships with the top banks. So corporate concentration forces concentration among banks.

In the hope of winning more profitable business, the second-tier banks offer loans to these companies at below their cost of capital. That will achieve nothing, the report suggests. There is excess capacity for lending to big companies. The growing number of mutual funds which invest in loans, and which have no regulatory capital costs, are forcing prices down. And new international capital rules proposed for banks, if and when they come into force in 2006, are likely to free up even more capacity, making things worse.

In this bleak landscape, mergers look attractive. Tomorrow's potential giants—Deutsche, J.P. Morgan Chase, Credit Suisse, and UBS, also of Switzerland—were built by mergers; so was Citigroup. Yet are their shareholders getting a fair deal? In 2001, corporate and institutional banking brought a risk-adjusted return to shareholders of around 21% of total revenues, the report says. That was dwarfed by the 40% of revenues paid out in bankers' salaries and bonuses. Top staff, who can easily move to a rival firm, will continue to enjoy fat rewards. Whereas Credit Suisse laid off 300 investment bankers this week, to cut high staffing costs, Deutsche Bank said only two weeks ago that it would ask shareholders' consent to award *euro*1.8 billion-worth of stock options to its senior bankers.

Shareholders in these banks must wonder: do I back an investment bank that could reach the top five?

Do I hunt for merger prospects among the second tier? Or do I dump my shares?

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Andersen

Going, going

Apr 4th 2002 | LONDON AND NEW YORK
From The Economist print edition

The incredible shrinking auditor

Get article background

NO AMOUNT of new audit rules and oversight committees will ever make as searing an impression on the collective conscience of the audit profession as the sight of Andersen disintegrating. This week, the firm's attempt to shepherd all of its non-American member firms into the arms of KPMG failed. One of the plums, Andersen in Spain, chose to merge with Deloitte Touche Tohmatsu instead. KPMG says that talks are continuing with Andersen elsewhere in Europe. Meanwhile, many Andersen partners are on the telephone finding new jobs for themselves, not for all of their colleagues.

For all KPMG's statements about merger talks with Andersen, the rival auditor has picked up only one of Andersen's businesses. Ernst & Young has snaffled practices in Australia, New Zealand, Russia and Singapore. Andersen partners in Hong Kong and China have opted for PricewaterhouseCoopers. Andersen's units in Latin America are expected to follow Spain to Deloitte Touche Tohmatsu.

One of the Spanish partners' reasons for rejecting KPMG in favour of Deloitte, please note, is that the smaller firm has a better litigation history, meaning not as many lawsuits for faulty audits. Not all Andersen practices can be so choosy. The weaker among them, meaning those that get work referred from other offices, count on the strong to carry them along to a new firm.

In America, matters get even worse for Andersen. At the end of March, the firm failed to honour a $217m settlement agreement with the Baptist Foundation of Arizona, because of its captive insurance company's inability to pay. Andersen's American partners, say colleagues, withheld a crucial premium payment to the insurer, Professional Services Insurance of Bermuda. “Andersen lied to investors and it lied to us,” says Janet Napolitano, Arizona's attorney-general, who has begun legal proceedings to revoke Andersen's licence to do business in the state.

Meanwhile, in London senior partners are trying to find a new leader for whatever remains of the firm's global operations. Until that happens, and until the Department of Justice's indictment is settled, the plan put forward by Paul Volcker, once chairman of the Federal Reserve, to turn Andersen into a pure, audit-only firm stays in limbo.

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About sponsorship

The Australian economy

Down wonder

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From The Economist print edition

How did Australia buck the worldwide economic downturn?

Get article background

AUSTRALIANS are not like the rest of us. Last year, when almost all the rich economies dipped into recession or slowed sharply, Australia continued to boom. What is more, while most big stockmarkets have fallen by one-third or so from their peaks in early 2000, share prices in Sydney touched a new high this year.

In the year to the fourth quarter of 2001, Australia's GDP grew by 4.1%—by far the fastest growth in any of the big rich economies (see chart). Evidence from consumer and business surveys suggests that growth this year remains brisk. According to *The Economist*'s latest poll of forecasters (see article), Australia is tipped to be the fastest growing economy this year and next, with growth not far short of 4%. Australia's buoyancy is even more remarkable given that its economy is so heavily dependent on basic commodities, whose prices slumped last year; and given that its two main export markets, America and Japan, both had recessions.

Broadly, three reasons explain why Australia was able to shrug off the global downturn. First, the Australian dollar has been weak. This has not only made manufacturers highly competitive; it has also boosted the local-currency profits of commodity exporters, whose produce is priced in American dollars.

A second prop to demand has been a boom in house prices, which rose in the big cities by an average of 16% in the year to the fourth quarter. Feeling wealthier, home-owners have gone out and spent. New construction has also leapt. Record low interest rates have helped, as well as the introduction of a government grant for first-time homebuyers.

The third reason for the economy's resilience is that it dodged the crash in information technology, which accounts for only a small share of Australia's GDP. When new-economy shares peaked two years ago, IT firms accounted for a mere 15% of Australia's total stockmarket capitalisation, compared with 45% of America's. This helps to explain why Australian share prices have outperformed the rest of the rich world.

In the wake of the Mexico crisis of 1994-95, *The Economist* argued, tongue only partly in cheek, that Australia had many of the same symptoms that Mexico displayed before its currency collapsed. Notably, it had a large current-account deficit and a foreign-debt burden that was rising fast. The Australian dollar, we concluded, looked vulnerable. Comparing Australia with Mexico won us few friends, yet to some extent we were right: the Australian dollar has fallen by almost two-fifths against the greenback since 1996.

Where we were wrong is that the currency's slide has had few ill effects on the economy. It has pushed up inflation by much less than expected, even though the Reserve Bank of Australia has cut interest rates as the currency has fallen. This is partly thanks to the central bank's regime of inflation targeting (with a target range of 2-3%), which helped to cap inflationary expectations.

The cheap currency has also cut Australia's current-account deficit, from 6% of GDP in 1999 to 2.5% of GDP last year, its lowest for more than 20 years. Still, the deficit seems sure to widen this year. The trade balance has swung sharply negative in recent months, as consumer imports have surged.

When it met on April 2nd, the Reserve Bank held its official interest rate unchanged, at 4.25%, but may well raise rates in May. Inflation, at 3.1% in the fourth quarter, is only a tad above the bank's target, and it is forecast to drop back this year. But the main case for raising interest rates is that, since the central bank last cut rates, Australia's economy has surprised with its resilience. So the insurance policy the bank took out last year against a deep global downturn is no longer needed.

Rory Robertson at Macquarie Bank reckons that the central bank is also becoming worried by the surge in house-buying and household borrowing, fuelled by low interest rates. The ratio of debt to personal disposable income has doubled since the late 1980s, to over 100%.

Thanks to low interest rates, households' interest burden is a lower share of their income than it was then. But Dominic Wilson at Goldman Sachs estimates that, if principal repayments are added in, then the total debt-service burden is already higher than in the 1980s: households have never before been so stretched. That is a reason for the Reserve Bank to nudge up rates early, rather than to be forced into a more abrupt tightening later.

Australia is the lucky country; yet its recent performance is more than a one-year wonder. Over the past ten years, Australia has enjoyed the fastest growth rate of any big developed economy. A series of reforms over the past two decades—from financial deregulation and reduced import barriers to the overhaul of taxes and labour relations—has made the economy much more competitive. Good policy has counted for more than good luck.

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About sponsorship

Regional banks in Japan

Outsmarting their city cousins

Apr 4th 2002 | FUKUOKA AND HIROSHIMA
From The Economist print edition

Local banks are doing better than their big-city rivals

Get article background

THE 100-odd regional banks scattered across Japan might look a bit like smaller, sleepier versions of the country's ten or so giant city banks. Like the giants, regional banks are struggling to clean up bad debts, and weak ones are going bust in growing numbers. Still, these days the stronger regional banks look a lot better than their big-city rivals. Their capital-adequacy ratios match those of the bigger banks, whose capital, unlike that of regional banks, is padded with layers of public funds. Because regional banks are relatively small lenders to the country's biggest borrowers, they can reduce their exposure to big problem borrowers more easily than can larger banks under political and moral pressure to keep on lending.

Shizuoka Bank, perhaps the best regional bank, has a financial-strength rating from Moody's that is six notches higher than that of Bank of Tokyo-Mitsubishi, the strongest city bank. Fukuoka Bank, the biggest bank in Kyushu, a large island in the south, was one of the first banks aggressively to write down bad debts last year. Regional banks are innovative, too, in sometimes surprising ways. Hiroshima Bank, in south-west Japan, is an expert on weather derivatives. Its latest creation is a humidity derivative for a company that makes throat lozenges, as a protection against weak sales during humid spells.

In 2000 Fukuoka Bank and Hiroshima Bank decided to team up: not by merging, but by crunching together their computer systems. The new system, built to handle around ¥30 trillion ($230 billion) of deposits, started running at Fukuoka Bank in January. This is faster progress than at the big city banks. The mega-mergers that created Mizuho Holdings and Sumitomo-Mitsui Bank have, three years later, yet fully to integrate their systems—an outcome, in part, of internal strife, says Kenichiro Nakamura of Ernst & Young. Big banks have had embarrassing glitches. The official launch on April 1st of Mizuho's retail bank saw none of its 7,000 cash machines working properly. The finance minister, Masajuro Shiokawa, showed his anger.

By contrast, Fukuoka Bank and Hiroshima Bank hired A.T. Kearney, an American management consultant, to evaluate their existing systems and take bids to build a new one. Several firms applied, including IBM, Fukuoka Bank's existing supplier, and Hitachi, which fitted out Hiroshima Bank. IBM won. The new system, set up a year later, combined Fukuoka's accounting system with Hiroshima's investment system. Other banks have been invited to join the venture, which is expected to cut systems costs by one-third.

The venture has gone smoothly partly because the two banks are the top ones in the two biggest cities in south-west Japan. Their customers have similar needs. Because they face tough competition from branches of the country's biggest banks, they have a keener incentive than regional banks in less competitive regions to be more efficient. The two are also a good geographic match, says Masao Tokunaga, managing director of Hiroshima Bank, who likens the banks to 16th-century warlords, each with their castle and domain. Fukuoka and Hiroshima, separated by the Kanmon Strait, are close enough to work together, but far enough apart to prevent territorial disputes.

The success of the technological partnership has led to collaborations in other areas. Exchanging information, their mergers-and-acquisitions departments can now provide clients, looking for partners of their own, with a wider range of candidates. The banks can also swap tips on helping customers expand in Asia beyond Japan. Fukuoka, on the northern tip of Kyushu, is closer to Seoul than it is to Tokyo, and has offices there as well as in Shanghai and in Dalian, a centre for Japanese and South Korean investment in north-east China. Thanks to proximity, Hiroshima has business links with South Korea, Taiwan and, increasingly, with China's eastern seaboard.

The entry in December of Fukuoka City Bank, a smaller bank, into the alliance also brings benefits for Fukuoka Bank. The two banks can share ATMs, says Masaaki Tani, deputy president of Fukuoka Bank, and can pool property portfolios to create attractive securitisation packages. “We're tired of foreign investment banks launching all the best deals,” he says.

Both Fukuoka Bank and Hiroshima Bank still have plenty of problems in their core business of lending. Fukuoka Bank is exposed to lots of wobbly local retailers, while Hiroshima Bank does business in a region dominated by Mazda, a carmaker in trouble, and Fujita, a construction company heavy with debts. Still, their ability to build a profitable franchise in south-west Japan, with growing ties overseas, might yet surprise their bulkier rivals.

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About sponsorship

Banco Santander Central Hispano

Big-shot Botin

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Spain's biggest bank goes back to being family-run

Reuters

The co-chairman came straight at me

OUTSIDE the office of Emilio Botin, chairman of Santander Central Hispano, hangs a painting of strung-up haunches of meat. All around are blood-red doors, curtains and walls, along with the pelts of animals he has shot and the tusks of four elephants. Mr Botin also bags game at his bank. Last year Jose Maria Amusategui, his co-chairman, resigned after a struggle with the chairman. In February the chief executive, Angel Corcostegui, left suddenly. Investors are beginning to wonder if Mr Botin's grip on power could damage the fortunes of his bank.

When Mr Botin took over the chairmanship of Banco Santander from his father at the age of 52, he inherited a small regional bank from the north of Spain. Since then, with strong profits and a series of acquisitions, the bank has become the largest in Spain and the biggest foreign bank in Latin America as a whole. In 1999, Mr Botin brought together Santander and Banco Central Hispano, a smaller bank. He described it to the world as a merger of equals.

Not quite. At Santander, so the joke goes in Madrid, there are two kinds of employees: the *Botines* and the *botones*, or bellboys. Mr Corcostegui, formerly chief executive of Central Hispano, quickly found out what category he was in. Just as the merger was going through, the chairman's daughter, Ana Patricia Botin, appeared in an article in *El Pais*, a Spanish newspaper, that painted her as the sure successor to her father. Mr Corcostegui and Mr Amusategui threatened to call off the deal, and Mr Botin reluctantly told his daughter to leave. From the beginning, says a former executive, there was violence inside the merger.

Now that Mr Amusategui and Mr Corcostegui are gone, Mr Botin's authority at Santander Central Hispano is unchallenged. His new chief executive is Alfredo Saenz, former head of Banesto, a Spanish retail bank owned by Santander, and Ms Botin has returned. The Botins own less than 3% of the bank, so their power on the board is starting to be criticised.

Investors appreciate that Mr Botin, who is 68 years old, has made them a lot of money. But they question whether Santander Central Hispano, large and complex, with 14 banks in Latin America and strategic alliances across Europe, should be run for much longer as a one-man show. There ought to be voices at the bank that dare to tell Mr Botin, if necessary, that he might be wrong.

His many coups—including the investment in Royal Bank of Scotland, which has increased greatly in value since its takeover of National Westminster Bank—have been tempered elsewhere. Santander paid way over the odds for Banespa, a Brazilian bank. The bank is likely to close or sell Patagon, its online financial-services arm, in Latin America, after investing some $800m in it worldwide. Investors watching the crisis in Argentina are nervous that the bank has invested too much in Latin America, a region that is now responsible for half of its revenues.

For years, says Inigo Lecubarri, an analyst at Schroder Salomon Smith Barney in London, foreign investors have considered Spanish banks a rarity in Europe for their emphasis on shareholder value. That may still hold true, he says, but to see chairmen disposing of competent chief executives without internal or external opposition is a blow. Not just at Santander Central Hispano but at Banco Bilbao Vizcaya Argentaria and Banco Popular, talented chief executives have had to leave for reasons unconnected with their management record.

The next chapter in Santander Central Hispano's family tale will come if Mr Botin wants to name his daughter as successor. So far, Ms Botin has not greatly impressed investors, though she is highly regarded inside the bank. Trained at J.P. Morgan in New York, she pushed Santander into investment banking in Latin America in the early 1990s. In 1998 she was behind the acquisition of the core Asian equities team of Hong Kong's Peregrine Investments, but Santander shut it down soon after. Almost everywhere, Santander Central Hispano has cut back its involvement in investment banking. With Mr Corcostegui gone, Ms Botin takes over the chairmanship of Banesto. However well she does, the charge of nepotism will hang over her.

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Economics focus

Sovereign bankruptcies

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Two Bush appointees are at loggerheads about how best to reform the international financial system

ANNE KRUEGER and John Taylor share remarkable similarities. Until recently both were colleagues at Stanford's Hoover Institution. Both are eminent conservative economists, generally sceptical of government meddling. Both were picked for public service by the Bush administration: Ms Krueger as number two at the International Monetary Fund and Mr Taylor as the top international man at the Treasury department. This week the two had a public split over how best to deal with insolvent countries.

When companies default on their debts there is a clear procedure to guide a restructuring. Not so with countries. In the debt crisis of the 1980s, the resulting vacuum meant protracted negotiations with banks. Since the 1990s, when emerging-market bonds became popular, the situation has only worsened. Organising the disparate owners of diverse bonds in different jurisdictions has proved a nightmare. Though sovereign restructurings are possible—Russia, Ukraine and Ecuador have all recently restructured their debts—the process clearly needs improvement. For conservatives the idea holds particular attraction, since, in their view, it might lessen the need for IMF rescues.

A big challenge is how to encourage collective action among creditors. Although it may be in the interest of creditors as a whole to co-operate with each other and the debtor country in a restructuring, it can be in the interests of an individual creditor to hang on and demand full payment—the last-man syndrome. Bonds governed by New York law traditionally encourage rogue creditors. Improving the procedure for sovereign defaults means finding ways to bind in the rogues. Ideally, agreements would be binding across different asset classes and jurisdictions, and would provide a legal framework for countries to tap new debt.

More radical proposals for sovereign-debt reform involve changing international law, either by creating an international bankruptcy court or by giving the IMF adjudicating powers. More cautious reformers are leery of statutory solutions and of undermining creditor rights. They contend that creditors should still control the terms of restructuring and they propose reforms that improve co-ordination among creditors. A popular proposal is to encourage countries to adopt “majority-action” clauses in their bond contracts. These clauses prevent rogue creditors subverting a restructuring.

A job to be done

Last November Ms Krueger proposed changes that would put the IMF at the heart of bankruptcy procedures. In the face of stiff opposition—from creditors and from governments in both rich and poor countries—she proposed a modified version this week. Her new plan tries to secure the benefits of a legal reform without the political difficulties of expanding the Fund's power.

Ms Krueger wants to amend international law (by changing the IMF's articles of agreement) in a way that allows a supermajority (60-75%) of creditors to make the terms of a restructuring binding on all the rest. The Fund—or some other arbitration body—would simply oversee voting and adjudicate disputes. This idea has several merits: it would address all creditors and it would cover all existing debt. Details remain to be filled in, but it is a clever compromise.

One that seems to be going nowhere, however. Mr Taylor, representing America's blocking vote at the IMF, rejects it out of hand. He proposes that borrowing countries add a package of new clauses into their debt contracts (potentially bank loans as well as bonds). These contracts would “describe as precisely as

possible” what happens when a country gets into trouble. That means not only the “majority-action clauses” that cautious reformers have long touted, but also clauses that describe exactly how a default would be initiated, how a restructuring would take place, and how disputes among different creditors would be arbitrated.

If all debtor countries had these clauses for all their bonds and loans, the framework for sovereign workouts would not be dramatically different from that proposed by Ms Krueger—just weaker. For instance, lawyers argue, contract-based reforms rather than changes to international law do not solve the difficulty of co-ordinating across debt instruments or between jurisdictions. More important, Mr Taylor offered no credible way to persuade countries to adopt these clauses for all their debt.

If the clauses make both borrowers and creditors better off, as Mr Taylor implies, then the question is why they have not already been introduced. The answer is that clauses describing default are an unattractive prospect when a country issues debt: about as romantic, as one debt lawyer puts it, as a prenuptial agreement. Borrower countries fear such clauses would raise their borrowing costs. Underwriters fear that business would go elsewhere. Ironically, there would be a collective-action problem in getting Mr Taylor's wide-ranging clauses adopted.

Mr Taylor talks vaguely about offering countries financial incentives to encourage adoption. He suggests making their introduction a condition for receiving IMF loans—a strategy likely to associate such clauses with weaker borrowers in the eyes of investors. Mr Taylor needs a more direct approach. Washington could, for instance, make such contracts mandatory for any bond issued in New York. But, ever suspicious of government meddling, Mr Taylor is unwilling to mandate anything at all. Ms Krueger, to her credit, realises that statutory change is necessary.

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Fundamental physics

The inconstant constant

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From The Economist print edition

Can physical constants change over time? Some scientists think so. Others are struggling to explain how

OPEN the inside-back cover of any physics textbook and you will find a list of the fundamental constants of nature: the speed of light, the charge of the electron, and so on. As physicists concoct ever more bizarre theories to explain the universe, these numbers are their faithful, unchanging accomplices. So some Australian researchers caused quite a stir when they announced last year that one of these constants seems to have changed. The group has now sent a representative to tour the United States and explain this finding. At a recent seminar at the Harvard-Smithsonian Centre for Astrophysics, Michael Murphy, the scientists' spokesman, presented the team's evidence for this extraordinary claim.

At the heart of the controversy is the number known as alpha, a quantity that can be calculated by combining several fundamental physical constants. To get alpha, square the charge of the electron and divide it by the speed of light times Planck's constant, a key value used in quantum theory. Then multiply the result by two times pi, the ratio of a circle's circumference to its diameter. When the right units of measurement are chosen for each component, they cancel out. All that remains is alpha, a pure number.

Scientists who nursed Platonic ideas about physics once suspected that alpha's value was an exact fraction, one over 137. Today, physicists reckon the denominator of this fraction is actually closer to 137.036. Yet the mystery persists: why is this seemingly arbitrary figure stitched into the fabric of reality? The work performed by John Webb, Victor Flambaum and Mr Murphy at the University of New South Wales, and their colleagues elsewhere, has only fuelled this enigma. If they are correct, it is pointless to ascribe significance to the measured value of alpha, because it has grown with time: by 0.0006% over the past 9 billion years.

Queer quasars

Alpha can be calculated by making precise measurements of physical objects. One way to compute its value is to shine light through a gas-filled container. The atoms in the gas will absorb certain colours of light, each of which corresponds to a particular wavelength. The spectrum of light that emerges from such a container will show a series of dark lines interrupting what would be a continuous rainbow. The spacing of these lines, their so-called “fine structure”, depends on alpha, which is known as the fine-structure constant.

The Australian scientists applied essentially the same technique to starlight in order to obtain an estimate

of what alpha's value was several billion years ago. Using Keck I, a telescope on a mountain-top in Hawaii, the physicists analysed light emanating from very bright but distant galaxies called quasars. Because light takes so long to reach the earth from distant galaxies, astronomers were able to study the value of alpha in light from the distant past. On its route to earth, light from some quasars passed through a cloud of gas. Just as in a container, molecules in an inter-galactic gas cloud absorb certain wavelengths and leave a pattern of dark lines on a quasar's spectrum.

Because the universe is expanding, any wave of light emitted from a far-flung source is stretched out. That lengthens the wavelength of the light and shifts it towards the red end of the colour spectrum. Dr Webb's team found that, even after correcting for this red shift, the dark lines in the quasar spectra did not appear at the same wavelengths as they do in laboratories on earth. In the quasar spectra, some of the dark lines were shifted slightly towards the red end of the colour spectrum and others towards the blue end. Only if alpha were a smidgen smaller when the light passed through the gas cloud could such a pattern have been produced.

The deviations are too small to be seen in any single quasar, but by averaging the results for 72 quasars the team claims to have secure statistical evidence. Mr Murphy's tour is intended to publicise this finding and to convince other scientists to perform independent measurements. He has generally been met with unease from theoretical physicists and with scepticism from astronomers. Theorists, for their part, have been worrying about what might cause alpha to change, and what change would imply for the stability of its components. Has the charge of the electron or the speed of light altered over time, or has some combination of effects occurred?

For most theories of the universe, such variability would prove disastrous. There is one theory, though, that may allow constants to vary over time. Though it came into vogue as string theory, this idea is now known as M-theory. It supposes that the universe contains 11 dimensions: the four familiar ones of time and space, plus seven that have shrivelled up and become inaccessible since the Big Bang.

The constants that physicists measure in their laboratories are only four-dimensional shadows of more fundamental entities that exist in 11 dimensions. These shadows would shift with time if the hidden dimensions changed scale. Unfortunately, nobody knows how to use M-theory to calculate whether alpha should be going up or down, or by how much.

Other theorists, such as Georgi Dvali of New York University and Joao Magueijo of Imperial College, London, say a changing alpha might come from a hitherto unknown force of nature that could modify the law of gravity. The new force would cause objects made of different materials to fall at different rates. However heretical that may sound, this notion has the advantage over M-theory in that its predictions might be testable in future experiments.

Astronomers, who despite their profession tend to be more down-to-earth than theoretical physicists, are withholding judgment until the measurements are repeated. Chris Carilli, of the National Radio Astronomy Observatory in Socorro, New Mexico, points out that the quasar-based method to measure the ancient value of alpha is at least 30 years old, and has never before resulted in a value different from today's alpha. Dr Webb invented a new method of analysis that is potentially more sensitive to changes in alpha, but is also more susceptible to subtle errors.

Dr Carilli and his colleagues are also suspicious because the new measurement disagrees with a different way of determining alpha in the remote past. About 2 billion years ago, uranium rocks at a site in Oklo, Gabon, experienced such compression that they underwent fission reactions much like those that occur in nuclear reactors. Physicists know this because of the unusual amounts of different types of uranium and other elements in the area, which was used by France as a uranium mine. By studying these deposits, scientists have deduced that the value of alpha during the ancient nuclear reactions was the same as it is today.

If the evidence from the mine and the evidence from the quasars are both correct, alpha would have to have changed between 2 billion and 9 billion years ago, and then stayed constant. That would be still more perplexing. Most physicists would be happier if the whole problem just went away. It will not be easy for them to surrender the beloved constancy of their constants of nature.

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The rice genome

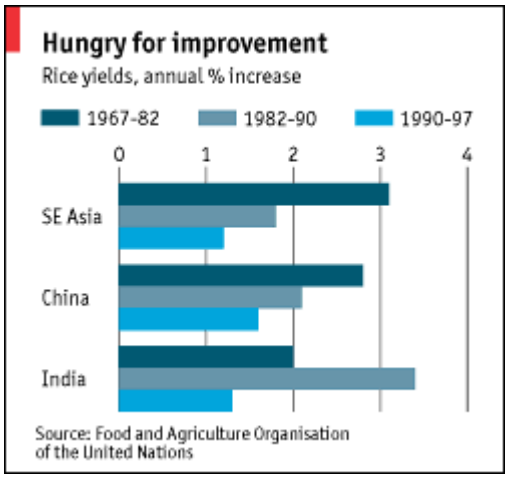
Grain gain

Apr 4th 2002
From The Economist print edition

Two new sequences offer researchers promise and problems

ONCE upon a time, unlocking the entire genetic code of an organism, however humble, was an unimaginable scientific feat. No longer. Since 1995, dozens of creatures, from bacteria to humans, have had their genomes sequenced—that is, researchers have worked out the order of the biochemical building blocks, or base pairs, that make up their cells' DNA. But some of these species are more remarkable than others. This week sees the publication of the genomes of two varieties of rice, *indica* and *japonica*, in the journal *Science*.

Although rice is not the first plant to have its genome unveiled, it is the most significant. Three billion people depend on this grain as the cornerstone of their diet, but slowing yield growth throughout Asia means that better strains are required (see chart). The sequencing of the rice genome could help breeders to produce such strains. And the close genetic relationship between rice and other cereals means that this information could help to boost maize and wheat as well.



The sequences were produced by two groups working independently—one led by the Beijing Genomics Institute, a state-financed centre, and the other by Syngenta, a Swiss-British firm specialising in agricultural biotechnology. The Beijing group reckons that the *indica* genome contains 466m base pairs, organised into perhaps as many as 55,600 genes; Syngenta's sequence of the *japonica* strain has 420m base pairs and may contain up to 50,000 genes. (For comparison, the human genome is thought to hold roughly 3 billion base pairs and perhaps 30,000-40,000 genes.) According to Gane Ka-Shu Wong, a member of the Beijing consortium, the rice genome may contain as many as 27,500 genes whose function has yet to be deciphered.

Other researchers wonder how easy it will be for them to explore these mysteries. Usually *Science* requires that researchers file their sequences in GenBank, a freely accessible database, before they are allowed to publish, as the Beijing institute has done. For Syngenta, the journal made an exception, because the company was concerned about other firms exploiting its data. Instead, Syngenta has agreed to make its sequence available on its website, subject to users registering with the company. As added protection, *Science* holds a copy in escrow should the company not honour its word.

Some geneticists have complained that this arrangement not only inconveniences their work, but signals that it is acceptable to lay claim to genetic information and to control its exploitation. The editor of *Science*, Donald Kennedy, pragmatically defends his decision to cut a deal in order to secure disclosure. He reckons that few other genomes are of sufficient importance to merit such an arrangement. In any case, Syngenta says that it will combine its work with that of a public programme, the International Rice Genome Sequencing Project, which is plodding along to produce an even more accurate version of the sequence, and deposit the whole lot in GenBank by the end of next year.

Some researchers remain unimpressed by the whole affair. As Richard Jefferson, head of CAMBIA, a research centre in Canberra, points out, the sequence of many individual rice genes has been known for years, but little has been done with them since the necessary tools have not been available. Simply having a full genome sequence does not change this. When it comes to improving rice, the race seems to have just begun.

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AIDS in South Africa

Leave them be

Apr 4th 2002 | PRETORIA
From The Economist print edition

South African scientists deplore their government's meddling

Get article background

“THERE is no interference from the government into the work of scientists,” said Essop Pahad, minister of the presidency and one of Thabo Mbeki's closest advisers. “The active issue of science has to be sorted out by the scientists together, the orthodox and the dissidents. It has nothing to do with us.” If only that were true.

Last week, the *Lancet*, a medical journal, published a letter from 22 of South Africa's leading scientists. They complained about their government's lack of regard for scientific facts. In particular they worried about its refusal, in defiance of a High Court ruling issued in December and reiterated last week, to allow widespread provision of nevirapine, a drug that limits mother-to-child transmission of HIV.

The government says it questions the reliability of the trials of nevirapine, which were conducted in Uganda, and that it will wait for South Africa's own 18 test sites to provide results before expanding availability. Coming from an administration known for its misgivings about the use of anti-AIDS drugs, this scientific fastidiousness seems unconvincing.

South African politicians insist that they are worried about the long-term cost and efficacy of such drugs, and fret that western drug makers may use the country as a testing ground for markets elsewhere. Yet South Africa's citizens are starting to clamour for more effective action against AIDS, and particularly for the use of drugs. So the government is unhappy when scientists demonstrate that South Africa has a large AIDS problem and that drugs could be used to help tackle it.

The nation's politicians do take an extraordinary interest in the science of AIDS. Mr Mbeki is fond of trawling the Internet for information on it. He has also given public warnings of the toxicity of some anti-retroviral drugs, arguing that they might be as deadly as the disease itself. Mr Mbeki's party, the African National Congress, says it is “duty-bound to pose scientific questions” rather than be “stampeded into precipitate action by pseudo-science, an uncaring drive for profits.”

But politicians are doing much more than asking questions. Malegapuru Makgoba, who heads the country's Medical Research Council (MRC), accused the government of intimidating scientists and meddling in their work. Last year, the MRC concluded a report from five years of research, which was leaked to the press. It showed a shocking rise in deaths among young people in South Africa, where an estimated 5m people carry HIV. Government officials rubbished those findings, which suggested that AIDS is the country's leading killer. Officials have launched an inquiry into who leaked the report, though the MRC is meant to be an independent organisation. Journalists are being asked to sign letters assuring the government that they did not receive the information from Dr Makgoba.

Dr Makgoba says he and many of his colleagues have been bullied by Mr Pahad. The scientist accuses the minister of threatening that he will be fired and “forgotten by history” for opposing the government policy and statements on AIDS. “Part of his portfolio is to phone and threaten scientists. He is trying to play political games, to overrule science with politics. It is very frightening.”

No scientist likes to see political rhetoric interfere with the dissemination of properly conducted research. Much less do they enjoy having to tolerate politicians who limit their debates and block publication of studies that could help researchers to gauge the impact of deadly diseases. Mr Makgoba knows he has made powerful enemies by complaining publicly, but argues something must be done to preserve the reputation of South Africa's scientists. “If you set such precedents of central political control, how can

scientists work to inform the public and our peers around the world?”

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Alcohol and exercise

Sweating it out

Apr 4th 2002
From The Economist print edition

An addiction to exercise worsens an addiction to alcohol

SERIOUS runners often show the hallmarks of addiction. They get a “runner's high” from working out. As time passes, they must work harder and harder to achieve the same fix. Without it, they become depressed and anxious, the classic symptoms of withdrawal.

Stefan Brene and his colleagues at the Karolinska Institute in Stockholm had hoped to exploit this fact to wean a group of alcoholic rats on to the healthier addiction of wheel running. Instead, they found that excessive bouts of exercise only made matters worse.

The researchers allowed a group of rats to play with running wheels for two weeks. The rats so enjoyed their sport that they were soon doing mini-marathons of around ten kilometres (six miles) a day. Then the wheels were locked. For five weeks thereafter, the only amusement on offer was alcohol. The rats took to this new hobby just as enthusiastically, consuming over half their total fluid from a bottle of ethanol. In the third phase, the alcohol was taken away. Half of the rats, though, got back their wheels. They were soon running away their sorrows at the rate of four to eight kilometres a day.

A few weeks later, all the rats were once again given the chance to drink alcohol, and all did so. Contrary to what the researchers expected, the rats that had exercised during their forced abstinence were even bigger boozers than those who had abstained. Those that exercised drank up to twice as much alcohol as those who did not.

The neuroscientists reckon that the rats were victims of “cross-sensitisation”, a phenomenon in which taking one addictive drug can make an addict more susceptible to the effects of another. Drugs such as heroin and opium trigger the release of dopamine in a part of the brain called the nucleus accumbens. Dopamine is a chemical messenger involved in generating a sense of pleasure in this part of the brain. Excessive running activates the same brain pathways, which makes alcohol feel better and therefore more addictive. As Dr Brene and his team report in a forthcoming issue of *Behavioural Brain Research*, a taste for natural highs can thus encourage a taste for artificial ones. If only the process worked as well in reverse.

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Opera

The flowering of Juan Diego Florez

Apr 4th 2002
From The Economist print edition

Guardian

A young tenor has the world of opera in thrall

TWO hundred years after Peru became the first New World country to produce its own operatic culture, South America is throwing up a fresh generation of impressive young tenors. Jose Cura and Marcelo Alvarez of Argentina, and a Mexican singer, Ramon Vargas, are among the best. But it is Juan Diego Florez, a 29-year-old Peruvian, who is regarded as the world's foremost young interpreter of the *bel canto* repertory of Rossini, Bellini and Donizetti.

When Mr Florez first sang the role of Ramiro in “La Cenerentola” at the Pesaro Rossini festival in 1998, Giorgio Gualerzi, a critic at *Opera* magazine, hailed him as “the Rossini tenor of the new century”. His first solo CD, of Rossini arias, is out this month on Decca. Mr Florez's voice is smaller than that of Roberto Alagna, another tenor who came to opera through popular music. But it is more flexible and has an easier top. There is also a brightness and a fluidity easily matched by sprightly charm and good looks. Less flamboyant than some, his rendition of the main aria, with its nine top notes, from Donizetti's “La Fille du Régiment” has made him the king of high Cs. “I have the note, so it's no problem,” he says. “There are plenty of things much more difficult than that.”

Mr Florez was born in Lima in 1973, the son of a well-known interpreter of Peruvian folksong, Ruben Florez. At the age of 13, he began composing songs. At 15 he was singing in piano-bars, accompanying himself on the guitar. “I had to sell all the tickets myself.” With just two classical arias, Schubert's “Ave Maria” and “Questa o quella” from Verdi's “Rigoletto”, he auditioned for the national choir. “My mother was always worrying—how was I to make a living?” It wasn't until he gained a scholarship to the Curtis Institute in Philadelphia, that a career in opera seemed possible. Within two months Mr Florez was on stage in Bellini's “I Capuleti e i Montecchi”, but he was still far from being a star.

Every singer has to find his own voice. The natural instrument, a strong technique, even experience singing on stage or in the concert hall; none of these is enough to unlock the real personality of the voice that is the goal of every opera singer. Mr Florez says that it was only when his teacher, Ernesto Palacio, another Peruvian and an exponent of 19th-century works, told him that he must aim for clarity rather than fullness, that he began to achieve what he calls “tournament quality”.

Mr Florez's interest in how that is achieved still continues. Almaviva, in Rossini's “The Barber of Seville”, was the role of his Metropolitan Opera debut earlier this year, and he sings it again at La Scala this summer. “Manuel Garcia, the tenor who created this part, had an almost baritone quality to his voice. You can tell that by studying the score. He never goes higher than a B-flat. Giovanni Rubini, who came

later, must have had a much higher, brighter sound.” It is generally supposed that early 19th-century tenors sang all the high notes softly, or in a falsetto voice. Mr Florez isn't so sure. Audiences then were still used to the art of the castrati: “Artifice was everything, that's what Italian audiences loved in those days. They probably didn't mind so much then about the distinction between two different kinds of sound coming from one voice.”

Mr Florez made his international debut in 1996 at the Pesaro Rossini festival and sang his first role in an opera house at La Scala the same year. Riccardo Muti told him: “Remember you started here, in Gluck's ‘Armide'.” In 1997 he was in London with the Royal Opera in a concert performace of Donizetti's “Elisabetta”, a hitherto unknown work discovered in the Covent Garden archives. He has since returned several times, in Rossini's “Otello” and “La Cenerentola”, and most recently in Bellini's “La Sonnambula”.

Is there a danger that he might over-reach and go for things that are too heavy? Mr Florez is modest as well as talented. “I think I know my limitations. I have been offered Mozart's Mitridate. I looked at the part, but it's all just a little low, and he's just a bit too angry all the time. It's not for me.”

Mr Florez is keen to continue rediscovering 19th-century Peruvian songs too, but meanwhile there is a full schedule of engagements. Later this year he will sing in Rossini's “La Donna del Lago”, the first time it will be put on at the Salzburg festival. “I think it is only correct that a Mozart festival should have Rossini; the two belong together.” Then comes a greater challenge, the role of Arturo in Bellini's “I Puritani”, which Rubini made famous. More evenings to look forward to.

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The history of the car

Motoring milestones

Apr 4th 2002
From The Economist print edition

IT IS a bit parochial to begin a social history of the motor vehicle, as Ruth Brandon does, at the London Motor Show. The main British motor show long ago moved to Birmingham, and even that is a mere shadow of the motor industry's big jamborees, which are held in Detroit, Geneva and Tokyo. But Ms Brandon admits she is not a motoring journalist, and her seven-year-old Peugeot 205 hardly qualifies her as a petrolhead. While her book, “Auto Mobile”, is much the better for that, she still misses out the one country which has had the biggest effect on the car in the past two decades: Japan.

Auto Mobile: How the Car Changed Life
By Ruth Brandon

Macmillan; 468 pages; £20

Buy it at Amazon.co.uk

This book is about the evolution of a remarkable machine which has transformed the way people live. The impact of the car on society and the environment is so profound that it is difficult to comprehend what life was like before the early pioneers put to the road. The first motorists were mostly toffs, usually ridiculed and sometimes physically attacked. Once ownership spread from the elite, the car completely changed the face of cities, gave birth to the suburbs and along the way helped to engineer a social revolution.

While a motoring journalist might think the highlights include the increasing horse-power from various versions of the internal combustion engine, or great racing victories at Le Mans, Ms Brandon notes more poignant facts: that many city streets were carpeted with horse dung until the arrival of the car (there were more than 130,000 horses in Manhattan alone); that motorists had killed more than 1,000 children in New York before 1910; and that utter disbelief greeted Henry Ford's decision in 1914 to pay his workers a princely $5 a day. All this before we have left the era of the Model T.

This book captures much of what subsequently happened as the world travelled from the birth of the Volkswagen Beetle in the late 1930s, to the tail-fins of the 1960's Cadillacs and all the way to BMW's dreams of a hydrogen-fuelled future. There are also diversions into the development of roads, motorways and cities.

Three main elements made motoring universal. The first was Ford's moving assembly line, which was fully installed in 1913 and which unleashed mass production upon the world. But as everyone knows, you could have any colour as long as it was black. Twenty years later, it was Alfred Sloan, president of General Motors, who realised that the car was also a fashion item: he began to introduce new models every year.

Unfortunately the third element is absent from this book. Indeed, Japan hardly gets a mention, even though many European and American car firms are still struggling to catch up with Japanese producers. Japan's contribution is just as fascinating as that of Ford and Sloan. Toyota, for instance, was founded by a loom maker, Sakichi Toyoda, who had invented a loom that would automatically stop if a thread broke. This reduced defects, raised yields and helped to streamline operations. When he applied these ideas, now known as lean manufacturing, to making cars, it vastly increased variety and reliability, and lowered costs. Perhaps Japan's role in the history of the car will be Ms Brandon's sequel. She would make a good job of it.

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By Ruth Brandon.
Macmillan; 468 pages; £20

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About sponsorship

Cricket

Playing to win

Apr 4th 2002
From The Economist print edition

AUSTRALIA'S dominance of the new World Cricket Championship was confirmed this past winter by a series of five crushing defeats of South Africa, who were the pretenders to the crown. The Australian team, led by Steve Waugh, a single-minded and ambitious cricketer who does not easily tolerate defeat, is one of the best ever. Sir Donald Bradman's Australians in 1948, known at home as The Invincibles, and Sir Clive Lloyd's West Indians in 1984 may have been better. But who is to say?

The Big Ship: Warwick Armstrong and the Making of Modern Cricket
By Gideon Haigh

Aurum Press; 440 pages; £20

Buy it at Amazon.co.uk

Gideon Haigh thinks such comparisons are intellectually disreputable: “Each generation is born with an accumulated inheritance of motivation and discovery,” he says. Mr Waugh's team plays cricket the Australian way, which Mr Haigh defines as “stern, forthright, tenacious, sometimes grim and occasionally involving conduct right at the edge of the laws”.

Cricket may be a beautiful game, but sportsmanship often comes a poor second to Machiavellian mind games. Warwick Armstrong was a distant predecessor of Mr Waugh's. He captained Australia against England in two Ashes series and retired unbeaten, having won eight Tests out of ten, including five straight in Australia in 1920-21, a record which Mr Waugh aspired to in England last summer but could not equal. The objective of Mr Haigh's impressive biography is to show Armstrong as one of the radical influences in the history of cricket. “His capacities both as a cricketer and a controversialist positioned him in the van of change, from the end of cricket as he understood it to the beginnings of cricket as we understand it.”

Mr Haigh argues that all of Australia's best teams during the last 80 years inherited from Armstrong's golden age—from his Test debut in 1902 to his retirement as captain in 1921. As a young man, Armstrong was quite happy to exploit unattractive defensive tactics. He let batsmen look good so as to tempt selectors into choosing them and thus weakening their team. Time wasting was second nature when it suited him.

But, in addition, Armstrong was both a brilliant attacking batsman capable of scoring hundreds of runs and a wily, wicket-taking bowler. At well over six feet and weighing 22 stone, he was known originally as the Leviathan of cricket, a title that his team mates transmuted into “The Big Ship”. Mr Haigh's definition of the Australian way of playing Test cricket is a distillation of Armstrong's way, and Mr Waugh seems intent on proving his case. Australian captains like Allan Border did so before him. Richie Benaud was well acquainted with Machiavelli and Don Bradman was quite content to skirt the edge of the laws.

Mr Haigh's is an uncommonly exhaustive study of a cricketer and his time. His style is that of a historian who weighs evidence and detects the sweep of a whole life rather than that of a chronicler of contemporary celebrity. Mr Haigh has written a number of cricket books—his last was “Mystery Spinner”—as well as books about BHP and Bankers Trust Australia. Although still only in his 30s, he takes a place alongside such influential cricket historians as Derek Birley, David Frith and even the legendary Neville Cardus, although Mr Haigh is much more fastidious with the facts than Cardus was.

The Big Ship: Warwick Armstrong and the Making of Modern Cricket.
By Gideon Haigh.
Aurum Press; 440 pages; £20

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New British fiction

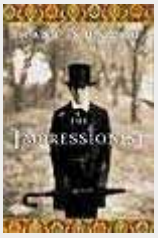
Rainbaby

Apr 4th 2002
From The Economist print edition

FOLLOWING closely in the footsteps of another clever writer, Zadie Smith—whose “White Teeth” was published to great acclaim two years ago—it is now Hari Kunzru's turn to be marketed as the latest hot, young, multicultural novelist in Britain. An Oxford University graduate with a half-Indian, half-Essex background, Mr Kunzru approaches his theme, the construction of ethnic identity, with energy and bravura.

Set in the Indian subcontinent a century ago, his novel is a historical saga conscious of its own roots in the literature of the distant and recent past. The opening chapter in which a colonial Englishman and an Indian beauty have sex during a storm seems to hark back to one of the founding epics of western writing, although the founder of the Roman race and Carthage's African queen were heroes on a different scale. Diffident Ronald Forrester is a bathetic Aeneas, and Amrita a passive, drug-addicted Dido, but their cross-cultural encounter has a definite Virgilian resonance. The other main difference is that, instead of immolating herself, the girl goes on to give birth to a baby boy who will become the novel's hero, the impressionist of the title.

The Impressionist
By Hari Kunzru



E.P.Dutton; 416 pages; $24.95.
Hamish Hamilton; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Significantly, considering his fluid identity, this pale-skinned protagonist does not have a single name. Called Pran for the first 15 years of his life, he is brought up as the son of an obsessive-compulsive Hindu lawyer, but is thrown out of home when it transpires that his real father was the white man. Falling into the power of a sinister eunuch, he is pimped out to a colonial official, the absurd Major Privett-Clampe, who dresses him up in shorts and a blazer and calls him Clive. A further reincarnation sees him in the household of married Scottish missionaries. But his most daring reinvention comes when he takes on the identity and Oxford place of a dead English boy. It is only when he joins an anthropological field trip to Africa that he realises he will never be a European.

In the course of this picaresque journey, what stands out is not the hero, for he is actually rather a blank, but the set-piece descriptions. Whether portraying the decadent court of a dissolute nawab, or the brutal environment of an English public school, Mr Kunzru has a gift for creating atmosphere. Occasionally, it feels a little derivative. Some of the Indian episodes, tinged with magical realism, are Rushdie-lite, and Mr Kunzru has to labour much harder than his model, Evelyn Waugh, in the Oxford sections. Yet though “The Impressionist” isn't “Midnight's Children” or “Decline and Fall”, it is still an impressive, highly enjoyable debut, sparkling with tragi-comic wit.

The Impressionist.
By Hari Kunzru.
E.P.Dutton; 416 pages; $24.95.
Hamish Hamilton; £12.99

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Lyndon Johnson

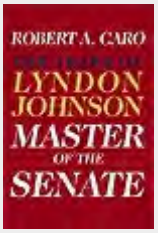
Big book, big man

Apr 4th 2002
From The Economist print edition

LYNDON JOHNSON was not one of nature's gentlemen. First elected to the Senate by way of massive ballot fraud, he was cruel, ruthless, deceitful and on a cash retainer from wealthy reactionaries whose interests he loyally served. To protect the huge economic stake of the Texas oilmen he represented, he masterminded the defeat of Leland Olds, the chairman of the Federal Power Commission, using tactics that could have been the model for Senator Joseph McCarthy's later efforts to tar honorable men as communist traitors. He identified himself with the defence of segregation. Indeed, on his promotion to the Senate in 1948, Johnson seemed to be guided by little else than ambition and self-aggrandisement.

Yet as the 36th president of the United States, Johnson went on to accomplish more for American blacks than any leader since Lincoln, and pushed through a programme aimed at improving the lot of the poor that was comparable in ambition only to Franklin Roosevelt's New Deal. The effect, Johnson predicted, would be to cripple the national Democratic Party for decades, a bleak but accurate assessment from one of modern America's shrewdest and most skilful political operators.

Master of the Senate: The Years of Lyndon Johnson
By Robert A.Caro



Knopf; 1167 pages; $35. Jonathan Cape (August 2002); £25

Buy it at
Amazon.com
Amazon.co.uk

Robert Caro's explanation for this contrast is that LBJ had a true and deep compassion that would always surrender to a true, and deeper, pragmatism. It was when self-interest and national interest came into alignment that he really soared.

After seven years of research, the first of what was then projected to be a three-volume biography appeared in 1982. The second, which was published in 1990, ended with Johnson's election to the Senate. This third volume—nearly as long as the first two books combined—covers Johnson's 12 years as a senator.

Mr Caro opens with more than 100 pages on the pre-Johnson Senate. The original framers of the constitution had seen it as a check on the popular passions that might buffet the lower chamber. By the end of the 19th century, after defeat in the civil war, a one-party South had shaped the Senate seniority system and the tradition of endless debate into weapons that enabled it to kill most progressive legislation. Since the end of Reconstruction in 1877, when white rule returned to the South, not a single civil-rights act had survived the Senate.

Power lay with the committee chairmen, leaving the Senate majority leader so powerless as to be a butt of ridicule. As a junior senator, Johnson was able to secure the post in only four years precisely because it was, or seemed, a sinecure. Detail by engrossing detail, Mr Caro exposes the seemingly innocuous stratagems and quiet favours to his seniors by which Johnson transformed himself into the master of the Senate.

Mr Caro's centrepiece is the passage of the Civil Rights Act of 1957. A white jury's acquittal after the brutal murder of a 14-year-old black boy, widely covered by the national media, had inflamed northern opinion. Substantial black emigration from the South had increased the importance of the black vote in key electoral states and the proportion of black votes going to the Democrats was falling. Republicans spied the prospect of pressing for a civil-rights bill and breaking the old, victorious Roosevelt coalition of large cities and the South.

To have any chance of the presidency, Johnson needed to shed his identification with the segregationist

diehards. The Republican administration had introduced a strong bill, Title III of which would have made segregation illegal in schools and public places such as swimming pools and restaurants. While southern senators might go along with the largely symbolic protection of voting rights, if only to help a fellow southerner towards the White House, they were adamant that social segregation could not be touched. When President Eisenhower finally understood what his own Title III contained, he too made known his opposition.

Johnson was equal to these complexities. He sensed that southern senators might acquiesce in the protection of voting rights, but at a price: denying judges the use of contempt powers as a sanction in criminal trials. All-white justice, in other words, could continue to make mockery of the jury system. Civil-rights advocates were bought off with an amendment facilitating the dilution of southern all-white juries by one or two blacks without altering the unlikelihood of getting the 12 votes needed for conviction. Mr Caro uncharacteristically fails to observe that the amendment also had the virtue of protecting black criminal defendants from beingunjustly convicted.

The 1957 act, as eventually signed, was at most a holding operation. Yet in Mr Caro's hands, it is really the process that fascinates. Over hundreds of pages, Mr Caro tracks Johnson's most intricate manoeuvres in an unprecedented close-up of how a politician of his calibre could shepherd through such a broad and divisive piece of legislation. Bismarck's sardonic crack that making laws, like making sausages, should never be looked at too closely, is triumphantly refuted.

Mr Caro's research spans decades and his command of material is encyclopedic. He drives the story forward irresistibly and makes the arcane almost graphic. “Master of the Senate” takes less stamina to read than to lift. If Mr Caro's work on Johnson has not already set a new standard in American political biography, it surely will when his story of Johnson's presidency is complete.

Master of the Senate: The Years of Lyndon Johnson.
By Robert A.Caro.
Knopf; 1167 pages; $35.
Jonathan Cape (August 2002); £25

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About sponsorship

Race in American history

Lessons in colour

Apr 4th 2002
From The Economist print edition

HOW a democratic society could countenance extreme inequalities associated with race or skin colour continues to preoccupy historians of the United States. In matters of race, how much has social class mattered? Why and when did the idea of race in the United States come to apply almost exclusively to blacks and whites? Despite decades of modern work, two recent books suggest that this remains contested territory.

In “The Death of Reconstruction”, Heather Cox Richardson contends that the north's withdrawal of sympathy from southern blacks after the end of Reconstruction was due more to class-based anxieties than to racism.

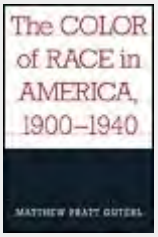
The so-called free-labour ideology that dominated the north in the last half of the 19th century idealised the figure of the good worker who succeeded by his own efforts without help from the state. Particularly after the shock of the Paris commune in 1871, government aid to workers was decried as class legislation, socialism or worse. It is into this context that Ms Richardson puts northern concerns about southern black demands.

Historians before her have held that fear of class conflict and labour militancy engendered in the north a social conservatism that made government intervention on behalf of black proletarians in the south increasingly difficult to justify. But Ms Richardson is the first historian to show by extensive quotations from newspapers and other sources that such views were widely held and clearly articulated.

But how widely? It is not certain that such relatively race-neutral and class-based views represented the northern mainstream. Many Democrats, as Ms Richardson concedes, manifested or appealed to the overt racism rife among lower-class whites. The Stalwarts who dominated the Republican Party in the 1870s and 1880s continued for some time to advocate protection of southern blacks, whether for reasons of electoral advantage or from lingering adherence to the racial humanitarianism of the abolitionist movement. The views that Ms Richardson emphasises were most characteristic of those who began as Republican advocates of free labour during the civil-war era, supported the liberal Republican breakaway in 1872, and voted as Mugwumps for Grover Cleveland in 1884. They tended to be, in other words, the self-styled best men, whom other historians have described as a disgruntled minority. Although more influential than the traditional interpretation would suggest, they never constituted or represented a majority of northerners.

Matthew Pratt Guterl's “The Color of Race in America, 1900-1940” deals with a different set of issues: how various notions of race were constructed in the early 20th century. Race here is a much broader idea than the simple two-term notion derived from considering just black-white relations, and Mr Guterl illustrates it by taking four representative men. His main characters are Madison Grant, a patrician defender of America as a Nordic nation against the immigrant hordes from southern and eastern Europe; Daniel Cohalan, an Irish-American nationalist who exalted the Celtic race; W.E.B. Du Bois, a great African-American intellectual who began as a romantic racialist and ended up as an unorthodox Marxist; and Jean Toomer, a novelist of mixed racial antecedents who refused to accept the black identity assigned to him in the 1920s.

The Color of Race in America, 1900-1940
By Matthew Pratt Guterl



Harvard University Press (2001); 256 pages; $39.95 and £27.50

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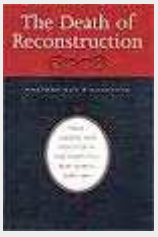
The Death of Reconstruction: Race, Labor, and Politics in the Post-Civil War North, 1865-1901
By Heather Cox Richardson



Harvard University Press (2001); 336 pages; $39.95 and £27.50

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The individual portraits are rich in evocative detail and often incisive, but the overall thesis of the book is problematic. Before the 1920s, Mr Guterl believes, race was applied promiscuously to a variety of ethnic or national groups that would later be lumped together as whites. But in the 1920s, as a result of the restriction of European immigration and the migration of southern blacks to northern cities, “the concert of 50 races”, he writes, “became a duet of white and black.” Yet was this so new? Mr Guterl seems unaware that the great 19th-century debates over slavery and emancipation stepped off from the assumption that differences among the four or five so-called great races designated by colour were of much greater significance than those distinguishing the little races associated with European nationality or ethnicity. In fact it was not until around the turn of the century, and partly as a result of European cultural influences, that biological racism was applied clearly and unequivocally to groups other than blacks, Indians and Asians. Hostility to the Irish in 19th-century America was not based on skin colour but derived primarily from the fact that they were very Catholic and very poor.

The Death of Reconstruction: Race, Labor, and Politics in the Post-Civil War North, 1865-1901.
By Heather Cox Richardson.
Harvard University Press (2001); 336 pages; $39.95 and £27.50

The Color of Race in America, 1900-1940.
By Matthew Pratt Guterl.
Harvard University Press (2001); 256 pages; $39.95 and £27.50

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About sponsorship

Clarification

Apr 4th 2002
From The Economist print edition

The uncaptioned illustrations to our article on video artists, “Art for the MTV generation” (March 23rd 2002) baffled sharp-eyed readers. They were early photographs by Shirin Neshat, and do not represent her current work in video and film art, which were the subject of the article.

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About sponsorship

Queen Elizabeth the Queen Mother

Apr 4th 2002
From The Economist print edition

Queen Elizabeth the Queen Mother died on March 30th, aged 101

EPA

Get article background

SINCE the Queen Mother's death several writers have observed in passing that she never once opened or closed her bedroom curtains. That may be true, but probably is not. Although one of her servants would normally have had this duty, it seems likely that there were times when the Queen Mother would herself have tugged at the cords controlling the royal curtains, perhaps on an impulse to let some sunshine in, or equally to keep it out. Yet the story, myth or not, is apt; not so much as a reflection of the Queen Mother's life, more about how she was regarded by the outside everyday world. Never once! It was a kind of injunction. Never once! In this context her staff of 50, footmen, pages, dressers, chauffeurs and a watchman who sat outside her door at night, seem less like deferential lackeys, more like warders.

A remarkable number of royals have in recent years broken out of the gilded prison. Not since Henry VIII has changing your partner found such royal favour. Diana became the rebel princess. The Queen Mother's younger daughter Margaret lived her own life. Even her grandson Charles, assumed to be the next monarch, sometimes behaves like a free man, although he is probably only on parole. The Queen Mother never gave cause for concern. Whenever the royal house seemed wobbly and the treason of republicanism was in the air, there she was, as eternal as Gibraltar, well perhaps not Gib these days, but you got the message. There seemed always to be an excuse for a photograph, waving from her carriage on the way to one of her five homes, winning at the races or celebrating yet another birthday. She never gave an interview but her homely face with its everlasting smile was worth any number of eulogistic words. She gave the impression that somehow she had been born a granny. Even for the elderly it was difficult to remember her as a young woman.

A reluctant bride

She was born in 1900, a few months before the death of Queen Victoria. *The Economist*, never an eager royalist, thought public reaction to Victoria's demise was “a little exaggerated”. However, the newspaper felt that respect for monarchy was diminishing and that, happily, change was on the way. Several of Europe's monarchs were to be unseated as a result of the first world war, among them Kaiser Wilhelm of Germany and Tsar Nicholas of Russia. But whatever the view of the anti-royalists, for Elizabeth Angela Marguerite Bowes-Lyon, a descendant of Stuart kings, the chance of becoming a princess had been lessened as a result of such royal misfortune, or indeed of finding a reasonable husband at all as a generation of would-be suitors had died in the war.

She was reluctant to accept a proposal from Prince Albert George, who seemed a dull fellow, and she kept him waiting for months. However, he was a son of the king of England, which partly made up for his deficiencies, and they were married in 1923. She said she fell in love with him later. In 1936, George became king after his lovesick brother Edward gave up the throne so that he could marry Wallis Simpson, an American divorcee. Elizabeth, now queen, set out to remedy George's unkingly handicaps, a stutter, a fear of public appearances and low self-confidence.

Some commentators have said that the couple had a brave war. Possibly they did. But the history of that time is still being written and rewritten. The king seems to have sided at first with those politicians willing to do a deal with Hitler when the Germans overran Europe, but discovered his courage when Winston Churchill came to power. The couple spent their days in London at Buckingham Palace but were driven to

Windsor each night to escape the bombing. In 1940, when invasion was expected, they decided against moving to North America with their children, or were told by the government that they had to stay. Elizabeth said, and said it several times, “The children won't leave without me, I won't leave without the king, and the king will never leave.”

Victory is a great tonic, and the war ended with the royal family more popular than it had been for decades. When George VI died in 1952 and his daughter Elizabeth became queen, the heady talk was of a “new Elizabethan age”. Overnight, the former queen became the Queen Mother. She was still youngish and only halfway through what was to be a long life. However, as the protector of the monarchy this was her most useful time. She became patron of an astonishing number of good causes, more than 300 by the 1990s. She was said to be the calming influence in family quarrels. She seemed immune from criticism. It did seem odd that this rich lady received a large stipend to cover her expenses. But then no one understands royal money, and it is believed that the royals bring in millions through tourism. She was given credit for saving wild animals: admirable if true. On a hunting trip in Africa in 1924 she had slaughtered every creature in sight, including a rare rhino. A tabloid newspaper listed “100 reasons why it's great to be English”, with the Queen Mother as number one.

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Overview

Apr 4th 2002
From The Economist print edition

America's manufacturers are getting busier, according to the ISM purchasing managers' index, which rose to 55.6 in March from 54.7 in February. GDP growth in the fourth quarter was revised upward to a 1.7% annual rate.The University of Michigan's consumer-confidence index rose to 95.7 in March from 90.7 in February.

In one worrying sign, America's factory orders fell by 0.1% in February, although analysts were expecting growth of 1.0%. Orders for computers and semiconductors fared especially badly. January's factory orders were also revised downward.

Consumer prices in the **euro area** rose by 2.5% in the year to March. The European Commission's euro area survey of economic sentiment rose modestly to 99.5 in March from 99.3 in February. **France's** INSEE survey of consumer confidence was unchanged in March at an unenthusiastic –15.

Japan's big manufacturers remain pessimistic, but at least their mood has stopped worsening. The Bank of Japan's Tankan survey of large manufacturers remained unchanged at –38 in March from its last reading in December. The survey dashed the modest hopes of analysts forecasting a rebound in Japanese business confidence.

Oil prices hit six-month highs of over $28 a barrel and **gold** rose above $300 an ounce in response to Israeli-Palestinian violence.

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Output, demand and jobs

Apr 4th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 5.2	+ 4.1 Q4	+ 3.8	+ 3.9	+ 2.5 Q4	+ 4.8 Q4	6.6 Feb	6.6
Austria	– 0.3	+ 0.9 Q3	+ 1.2	+ 2.6	– 5.9 Jan	– 3.5 Dec	3.7 Feb	3.4
Belgium	– 0.8	+ 0.1 Q4	+ 1.3	+ 2.9	– 7.5 Jan	– 5.0 Jan	10.8 Mar*	10.3
Britain	+ 0.1	+ 1.6 Q4	+ 1.9	+ 2.9	– 5.2 Jan	+ 5.9 Feb	5.1 Jan†	5.2
Canada	+ 2.0	+ 0.9 Q4	+ 2.3	+ 3.5	– 3.5 Jan	+ 5.7 Jan	7.9 Feb	6.9
Denmark	+ 0.7	+ 0.7 Q4	+ 1.5	+ 2.4	– 1.7 Jan	+ 1.4 Dec	5.0 Jan	5.3
France	– 0.6	+ 0.9 Q4	+ 1.5	+ 2.9	– 1.3 Jan	– 2.8 Jan	9.0 Feb	8.7
Germany	– 1.0	– 0.1 Q4	+ 0.9	+ 2.5	– 4.4 Jan	– 1.8 Jan	9.6 Feb**	9.3
Italy	– 0.8	+ 0.7 Q4	+ 1.3	+ 2.9	– 3.3 Jan	+ 0.2 Jan	9.1 Jan	9.8
Japan	– 4.5	– 1.9 Q4	– 1.0	+ 1.1	–11.3 Feb	– 3.8 Jan	5.3 Feb	4.7
Netherlands	nil	+ 0.4 Q4	+ 1.4	+ 2.7	– 3.9 Jan	+ 1.2 Nov	1.9 Feb§	2.3
Spain	+ 0.7	+ 2.3 Q4	+ 2.0	+ 3.2	– 0.1 Jan	na	12.9 Feb	13.2
Sweden	+ 1.4	+ 1.1 Q4	+ 1.7	+ 3.0	– 4.3 Jan	+ 1.7 Jan	4.0 Feb*	4.2
Switzerland	+ 0.1	+ 0.4 Q4	+ 1.0	+ 2.2	– 1.0 Q4	+ 3.8 Jan	2.6 Feb*	1.9
United States	+ 1.7	+ 0.5 Q4	+ 2.5	+ 3.5	– 4.1 Feb	+ 5.4 Jan	5.5 Feb	4.2
Euro area	– 0.8	+ 0.6 Q4	+ 1.3	+ 2.8	– 4.1 Dec	+ 0.4 Dec	8.4 Feb	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 1.8	– 0.9 Q4	na	na	– 7.5 Feb	+ 2.9 Dec	9.4 Feb*	9.8
Greece	na	+ 3.7 Q4	na	na	– 4.0 Dec	+ 6.8 Dec	na	na
Iceland	na	+ 1.82001	na	na	+ 2.5 2000	na	2.6 Feb*	1.5
Ireland	na	+ 3.2 Q3	na	na	+10.9 Jan	+ 9.1 Dec	4.2 Feb	3.6
Luxembourg	na	+ 5.12001	na	na	– 9.2 Dec	+10.0 Oct	2.7 Jan	2.7
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 2.6 Q3	+ 7.4 Q4	5.4 Q4	5.6
Norway	+ 1.0	+ 1.8 Q4	na	na	+ 2.0 Jan	+ 3.4 Feb	3.3 Q4	3.1
Portugal	– 1.0	+ 1.3 Q3	na	na	+ 0.8 Jan	– 2.4 Jan	4.1 Q4*	3.8

*Not seasonally adjusted. †Nov-Jan; claimant count rate 3.1% in Feb. §Dec-Feb. **EU harmonised rate 8.1% in Feb.

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Prices and wages

Apr 4th 2002
From The Economist print edition

% change at annual rate

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2002	2003	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.1	Q4	+ 5.8	+ 2.5	+ 2.4	– 0.7	Q4	+ 8.4	+ 4.9	Q4	+ 5.4
Austria	+ 1.9	Feb	+ 2.6	+ 1.6	+ 1.7	– 0.6	Feb	+ 2.6	+ 2.5	Feb	+ 2.6
Belgium	+ 2.7	Mar	+ 2.1	+ 1.8	+ 1.7	– 1.6	Jan	+ 5.9	+ 3.1	Q4	+ 1.6
Britain	+ 1.0	Feb	+ 2.7	+ 2.1	+ 2.5	– 0.3	Feb	+ 1.3	+ 2.7	Jan	+ 4.6
Canada	+ 1.5	Feb	+ 2.9	+ 1.3	+ 2.1	– 1.4	Feb	+ 2.6	+ 3.3	Jan	+ 0.9
Denmark	+ 2.5	Feb	+ 2.4	+ 1.9	+ 2.0	nil	Feb	+ 3.4	+ 4.1	Q4	+ 3.8
France	+ 2.0	Feb	+ 1.4	+ 1.4	+ 1.5	– 1.3	Feb	+ 3.5	+ 4.1	Q3	+ 5.3
Germany	+ 1.8	Mar	+ 2.5	+ 1.4	+ 1.4	– 0.5	Feb	+ 3.7	+ 2.3	Jan	+ 2.5
Italy	+ 2.5	Feb	+ 3.0	+ 1.9	+ 1.9	– 1.4	Feb	+ 5.0	+ 2.8	Feb	+ 2.0
Japan	– 1.6	Feb	– 0.3	– 0.8	– 0.5	– 0.1	Feb	+ 0.1	– 0.3	Feb	+ 0.9
Netherlands	+ 3.8	Feb	+ 4.5	+ 2.9	+ 2.3	– 2.6	Jan	+ 6.7	+ 3.8	Jan	+ 4.4
Spain	+ 3.1	Feb	+ 3.8	+ 2.3	+ 2.4	– 0.2	Feb	+ 3.6	+ 3.6	Q3	na
Sweden	+ 2.8	Feb	+ 1.6	+ 2.2	+ 2.0	– 0.4	Feb	+ 2.5	+ 3.2	Dec	+ 2.7
Switzerland	+ 0.5	Mar	+ 0.9	+ 0.6	+ 1.1	– 1.5	Feb	+ 0.8	+ 1.3	2000	+ 0.3
United States	+ 1.1	Feb	+ 3.5	+ 1.4	+ 2.2	– 2.6	Feb	+ 4.0	+ 3.7	Feb	+ 4.1
Euro area	+ 2.5	Mar	+ 2.6	+ 1.7	+ 1.7	– 1.1	Feb	+ 4.6	+ 2.9	Q3	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Feb	+ 2.7	na	na	– 1.4	Feb	+ 3.2	+ 4.3	Q4	+ 5.0
Greece	+ 3.4	Feb	+ 3.5	na	na	+ 2.4	Dec	+ 6.7	na		na
Iceland	+ 8.7	Mar	+ 3.9	na	na	+ 8.7	Mar	+ 6.0	+ 9.8	Feb	+ 8.2
Ireland	+ 4.7	Feb	+ 5.3	na	na	+ 2.3	Jan	+ 3.8	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.3	Feb	+ 2.9	na	na	– 2.0	Jan	+ 5.3	+ 3.4	Aug	+ 7.0
New Zealand	+ 1.7	Q4	+ 4.0	na	na	+ 1.8	Q4	+10.7	+ 2.2	Q4	+ 1.6
Norway	+ 0.8	Feb	+ 3.6	na	na	–11.5	Feb	+ 3.8	+ 4.5	Q4	+ 4.3
Portugal	+ 3.2	Feb	+ 4.8	na	na	– 6.1	Jan	+ 7.3	+ 2.4	Apr	na

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Economic forecasts

Apr 4th 2002
From The Economist print edition

The Economist poll of forecasters, April averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2002	2003	2002	2003	2002	2003	2002	2003
Australia	2.8/4.5	3.3/4.4	3.8 (3.4)	3.9 (3.7)	2.5	2.4 (2.3)	-3.5(-3.2)	-3.7(-3.3)
Austria	0.8/1.7	1.8/3.3	1.2 (1.1)	2.6 (2.4)	1.6	1.7	-2.2(-2.1)	-2.0(-1.9)
Belgium	0.6/2.6	1.9/3.9	1.3 (1.1)	2.9	1.8 (1.6)	1.7 (1.6)	4.8 (4.6)	4.8 (4.5)
Britain	1.6/2.3	2.4/3.5	1.9	2.9	2.1 (2.0)	2.5 (2.4)	-1.9(-2.0)	-1.9(-2.1)
Canada	1.3/3.2	3.0/5.0	2.3 (1.7)	3.5 (3.7)	1.3 (1.2)	2.1 (1.9)	1.9 (2.1)	2.1 (2.2)
Denmark	1.0/1.9	2.0/3.0	1.5 (1.4)	2.4 (2.3)	1.9 (1.8)	2.0	2.5 (2.4)	2.3
France	1.2/1.8	2.2/3.5	1.5 (1.4)	2.9	1.4 (1.2)	1.5 (1.3)	1.8 (1.7)	1.7
Germany	0.6/1.1	1.7/3.7	0.9 (0.7)	2.5	1.4 (1.3)	1.4	0.3 (0.1)	0.4 (0.2)
Italy	0.9/1.8	2.0/3.6	1.3 (1.2)	2.9 (2.8)	1.9 (1.8)	1.9 (1.8)	nil (0.2)	-0.1 nil
Japan	-1.5/-0.2	0.3/1.8	-1.0 (-1.2)	1.1	-0.8 (-1.0)	-0.5	2.5 (2.3)	2.5 (2.3)
Netherlands	0.9/1.9	1.4/3.2	1.4 (1.2)	2.7 (2.9)	2.9 (2.7)	2.3	3.7	4.0
Spain	1.5/2.5	2.5/4.0	2.0 (1.9)	3.2	2.3	2.4	-2.1(-2.2)	-1.8(-1.9)
Sweden	1.1/2.5	2.4/3.4	1.7 (1.4)	3.0 (2.8)	2.2 (2.0)	2.0	2.3 (2.4)	2.6 (2.5)
Switzerland	0.5/1.9	1.5/2.9	1.0	2.2 (2.0)	0.6	1.1 (0.9)	9.4(10.1)	9.5(10.1)
United States	2.2/3.2	2.3/4.3	2.5 (1.7)	3.5 (3.6)	1.4 (1.3)	2.2 (2.1)	-4.2(-4.1)	-4.5(-4.3)
Euro area	1.0/1.5	2.1/3.7	1.3 (1.2)	2.8	1.7 (1.6)	1.7 (1.6)	0.3 (0.2)	0.4 (0.2)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordbanken, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and the euro area. The table also shows their highest and lowest projections for growth. The previous month's forecasts, where different, are shown in brackets.

This month our panel has revised up its forecast for GDP growth in 2002 in 13 of the 15 countries. America is now expected to see growth of 2.5% this year, up from a forecast of 1.7% in March. Even our gloomiest seer still expects growth of 2.2% this year. In contrast, the euro area is tipped to grow by only 1.3%. Faster growth has prompted economists to push up their inflation forecasts. Nevertheless, inflation is not expected to exceed 2.5% by 2003 in any of the countries in the table.

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Money and interest rates

Apr 4th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 3rd 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+22.7	+13.6	Feb	4.55	4.84	5.33	6.38	5.23	7.08
Britain	+ 7.1	+ 6.2	Feb	4.19	5.38	4.91	5.22	4.77	6.30
Canada	+14.2	+ 5.5	Feb	2.22	4.64	4.32	5.72	5.43	7.15
Denmark	+ 5.9	+ 6.5	Feb	3.75	4.85	4.55	5.36	4.96	7.02
Japan	+19.4	+ 3.7	Feb	0.03	0.04	0.04	1.40	1.28	1.51
Sweden	+ 8.8	+ 6.2	Dec	4.19	3.88	5.13	5.57	4.69	5.83
Switzerland	+ 7.5	+ 4.6	Feb	1.61	3.30	2.51	3.49	3.18	4.51
United States	+ 7.6	+10.9	Feb	1.89	4.65	3.53	5.28	4.93	7.01
Euro area†	+ 6.1	+ 7.4	Feb	3.44	4.57	4.27	5.13	4.70	5.77

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.72%, Japan No.237 1.43%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 4th 2002
From The Economist print edition

1995=100

	Mar 26th	Apr 2nd*	% change on one month	% change on one year
Dollar index				
All items	70.1	69.9	+ 1.4	+ 2.5
Food	70.6	70.7	+ 2.3	+ 5.0
Industrials				
All	69.3	68.8	+ 0.1	- 0.7
Nfa†	69.4	69.2	+ 1.8	+ 6.1
Metals	69.2	68.6	- 1.3	- 5.9
Sterling index				
All items	77.5	76.5	- 0.0	+ 1.6
Euro index				
All items	105.1	104.3	- 0.0	+ 3.1
Yen index				
All items	99.0	99.1	+ 2.3	+ 8.5
Gold				
$ per oz	296.75	305.30	+ 2.4	+18.7
West Texas Intermediate				
$ per barrel	25.73	27.41	+17.7	+ 2.9

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 4th 2002
From The Economist print edition

Market indices

	Apr 3rd	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,329.0	3,440.0	3,329.0	- 0.9	- 3.2	- 0.9	+ 2.8
Austria (ATX)	1,302.8	1,304.6	1,114.4	+ 1.7	-25.0	+14.2	+13.0
Belgium (Bel 20)	2,783.4	2,811.1	2,622.4	+ 0.8	-24.4	+ 0.0	- 1.0
Britain (FTSE 100)	5,247.8	5,323.8	5,024.1	+ 0.6	-24.3	+ 0.6	- 0.7
Canada (Toronto Composite)	7,842.3	7,958.1	7,418.1	+ 0.1	-31.1	+ 2.0	+ 2.3
Denmark (KBX)	231.0	233.4	216.8	- 0.7	-23.4	+ 2.8	+ 1.7
France (SBF 250)	3,048.3	3,081.9	2,782.5	+ 0.2	-30.6	+ 2.2	+ 1.1
(CAC 40)	4,632.3	4,688.0	4,239.0	+ 0.2	-33.1	+ 0.2	- 0.9
Germany (Xetra DAX)	5,281.8	5,462.6	4,745.6	- 1.2	-34.5	+ 2.4	+ 1.2
Italy (BCI)	1,503.8	1,509.8	1,344.9	+ 1.2	-31.1	+ 4.9	+ 3.8
Japan (Nikkei 225)	11,400.7	11,919.3	9,420.9	+ 0.7	-70.7	+ 8.1	+ 6.9
(Topix)	1,084.4	1,125.4	922.5	+ 0.7	-62.4	+ 5.1	+ 3.8
Netherlands (AEX)	528.3	531.2	478.3	+ 1.0	-24.7	+ 4.2	+ 3.1
Spain (Madrid SE)	828.7	847.4	773.2	+ 1.0	-27.7	+ 0.5	- 0.6
Sweden (Affarsvarlden Gen)	221.6	236.8	209.9	- 0.6	-44.7	- 4.3	- 2.4
Switzerland (Swiss Market)	6,694.1	6,694.1	6,105.2	+ 0.9	-20.4	+ 4.3	+ 4.3
United States (DJIA)	10,198.3	10,635.3	9,618.2	- 2.2	-13.0	+ 1.8	+ 1.8
(S&P 500)	1,125.2	1,172.5	1,080.2	- 1.7	-26.3	- 2.0	- 2.0
(Nasdaq Comp)	1,784.4	2,059.4	1,716.2	- 2.3	-64.7	- 8.5	- 8.5
Europe (FTSE Eurotop 300)*	1,270.0	1,279.7	1,185.5	+ 0.4	-25.5	+ 0.7	- 0.4
Euro area (FTSE Ebloc 100)*	1,110.5	1,125.1	1,013.0	+ 0.2	-28.4	- 0.1	- 1.2
World (MSCI)†	994.9	1,024.4	937.0	- 0.5	-31.3	na	- 0.9
World bond market (Salomon)‡	435.8	443.1	430.3	+ 0.7	- 5.2	na	- 0.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 4th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† Apr 3rd	year ago	Currency units per $ Apr 3rd	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 1.3	Feb	− 9.2	Q4	− 3.5	− 3.7	76.1	69.1	1.88	2.02	2.71	1.66	1.42	0.1
Austria	− 4.3	Dec	− 3.6	Jan	− 2.2	− 2.0	100.1	100.5	1.14§	1.12	1.63	–	0.86	nil
Belgium	+ 11.2	Dec	+ 13.0	Dec	+ 4.8	+ 4.8	98.8	99.3	1.14§	1.12	1.63	–	0.86	nil
Britain	− 46.7	Jan	− 25.1	Q4	− 1.9	− 1.9	107.3	105.0	0.70	0.70	–	0.61	0.52	1.1
Canada	+ 39.0	Jan	+ 18.9	Q4	+ 1.9	+ 2.1	76.0	76.7	1.59	1.57	2.29	1.40	1.20	2.8
Denmark	+ 7.1	Jan	+ 4.2	Jan	+ 2.5	+ 2.3	101.7	102.3	8.44	8.39	12.1	7.43	6.36	2.0
France	+ 4.2	Jan	+ 25.6	Jan	+ 1.8	+ 1.7	101.4	102.0	1.14§	1.12	1.63	–	0.86	-1.5
Germany	+ 87.9	Jan	+ 15.4	Jan	+ 0.3	+ 0.4	98.4	99.1	1.14§	1.12	1.63	–	0.86	-2.5
Italy	+ 8.4	Jan	+ 3.2	Dec	nil	− 0.1	72.3	72.8	1.14§	1.12	1.63	–	0.86	-1.4
Japan	+ 72.2	Jan	+ 91.1	Jan	+ 2.5	+ 2.5	127.6	134.4	133	122	191	117	–	-6.4
Netherlands	+ 22.1	Jan	+ 11.8	Q4	+ 3.7	+ 4.0	97.7	98.3	1.14§	1.12	1.63	–	0.86	1.1
Spain	− 38.5	Dec	− 15.2	Dec	− 2.1	− 1.8	74.1	74.5	1.14§	1.12	1.63	–	0.86	nil
Sweden	+ 13.5	Feb	+ 7.4	Jan	+ 2.3	+ 2.6	76.8	76.2	10.3	10.3	14.8	9.07	7.76	3.8
Switzerland	+ 1.6	Feb	+ 24.6	Q4	+ 9.4	+ 9.5	112.8	108.4	1.66	1.72	2.39	1.46	1.25	na
United States	−421.2	Jan	−417.4	Q4	− 4.2	− 4.5	123.0	119.7	–	–	1.44	0.88	0.75	0.6
Euro area	+ 46.6	Jan	− 6.5	Jan	+ 0.3	+ 0.4	78.3	79.8	1.14	1.12	1.63	–	0.86	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.4	Jan	+ 8.2	Jan	na	na	77.8	78.6	1.14§	1.12	1.63	–	0.86	3.7
Greece	− 19.1	Nov**	− 7.3	Nov	na	na	57.4	57.6	1.14§	1.12	1.63	–	0.86	0.2
Iceland	+ 9.3	Feb	− 0.4	Q4	na	na	na	na	99.3	92.7	143	87.5	74.9	-0.2
Ireland	+ 31.9	Jan	− 1.2	Q3	na	na	86.9	88.0	1.14§	1.12	1.63	–	0.86	3.2
Luxembourg	− 2.8	Dec	+ 0.4	Q3	na	na	98.8	99.3	1.14§	1.12	1.63	–	0.86	5.3
New Zealand	+ 0.2	Feb	− 1.6	Q4	na	na	85.2	78.3	2.28	2.46	3.28	2.01	1.72	1.3
Norway	+ 24.1	Feb	+ 23.8	Dec	na	na	99.7	94.1	8.69	9.06	12.5	7.65	6.55	14.3
Portugal	− 14.0	Dec	− 10.5	Dec	na	na	89.1	89.6	1.14§	1.12	1.63	–	0.86	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

Text refers only to the first 16 countries listed

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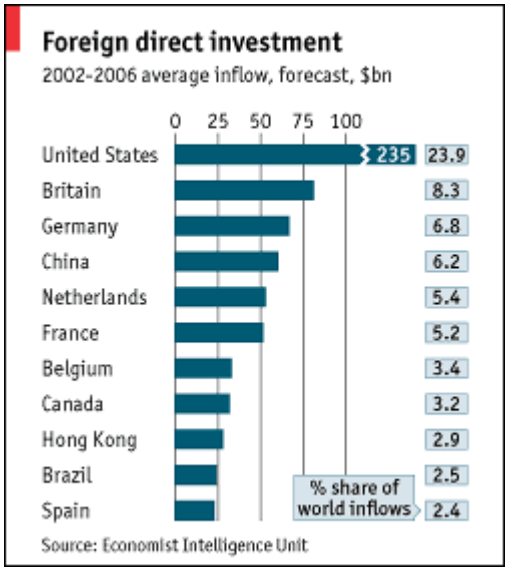
Foreign direct investment

Apr 4th 2002
From The Economist print edition

Foreign direct investment is expected to grow briskly through 2006. Global FDI fell by 40% last year; poor countries' inflows fell by only 9%, while rich countries saw a 49% decline.



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Overview

Apr 4th 2002
From The Economist print edition

South Korea's stockmarket rose to a 26-month high. Since last September it has almost doubled. Emerging markets have generally outperformed the developed markets this year. Indonesia, the Philippines, Thailand and Russia have all seen gains of over 20% in dollar terms since January.

India's GDP growth quickened to 6.3% in the year to the fourth quarter of 2001. The 12-month trade deficit widened in February: imports surged by 15% from their level a year earlier, while exports stalled.

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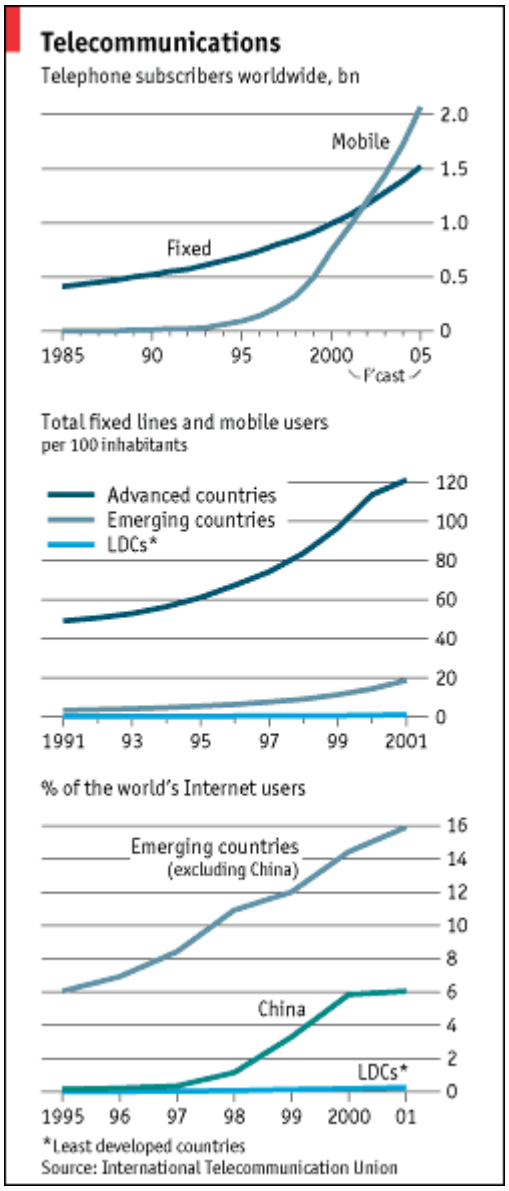
Telecommunications

Apr 4th 2002
From The Economist print edition

The number of mobile-telephone subscribers will overtake that of fixed subscribers this year, according to new figures from the International Telecommunication Union (ITU). The boom in mobile telephony has helped the world's least developed countries (LDCs) above the important threshold of one telephone subscriber per 100 inhabitants. But as emerging countries account for a growing proportion of Internet users, LDCs are being left behind.



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Economy

Apr 4th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.6	Q4	+ 3.5	Feb	nil	Feb	+26.5	Feb	+21.2	2001§	211.8	Nov
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.3	Feb	– 9.9	Feb	+12.0	Q4	111.3	Feb
India	+ 6.3	Q4	+ 3.2	Jan	+ 5.2	Feb	– 6.0	Feb	– 0.1	Q4	47.7	Feb
Indonesia	+ 4.1	Q4	+ 2.0	Q2	+14.1	Mar	+25.9	Feb	+ 4.8	Q3	27.1	Feb
Malaysia	– 0.5	Q4	– 6.7	Jan	+ 1.2	Feb	+13.9	Feb	+ 7.4	Q3	30.3	Feb
Philippines	+ 3.8	Q4	– 0.5	Jan‡	+ 3.4	Feb	+ 2.8	Jan	+ 4.5	Dec	13.9	Feb
Singapore	– 6.6	Q4	–11.3	Feb	– 0.6	Feb	+ 5.6	Feb	+17.9	Q4	72.1	Feb
South Korea	+ 3.7	Q4	– 2.6	Feb	+ 2.3	Mar	+ 6.6	Mar	+ 8.2	Feb	105.0	Feb
Taiwan	– 2.7	Q4	–11.5	Feb	+ 1.4	Feb	+17.9	Feb	+19.0	Q4	125.0	Feb
Thailand	+ 2.1	Q4	+ 2.3	Feb	+ 0.6	Mar	+ 2.9	Feb	+ 6.4	Feb	33.2	Feb
Argentina	–10.7	Q4	–16.5	Feb	+ 4.0	Feb	+ 8.3	Feb	– 4.4	Q4	13.9	Feb
Brazil	– 0.7	Q4	– 1.3	Jan	+10.4	Feb	+ 4.4	Mar	–21.3	Feb	35.9	Feb
Chile	+ 1.7	Q4	+ 0.9	Feb	+ 2.5	Feb	+ 1.5	Feb	– 0.9	Q4	14.1	Jan
Colombia	+ 1.7	Q4	– 1.4	Dec	+ 6.7	Feb	+ 0.2	Jan	– 1.2	Q3	10.4	Feb
Mexico	– 1.6	Q4	– 3.3	Jan	+ 4.8	Feb	– 9.7	Feb	–17.1	Q4	47.1	Feb
Peru	+ 3.3	Feb	+ 1.5	Jan	– 1.1	Feb	– 0.1	Jan	– 1.1	Q4	8.7	Feb
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+17.6	Mar	+ 9.8	Q4	+ 4.4	Q4	9.2	Dec
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.5	Dec	– 8.6	Nov	– 0.1	Q4	13.3	Nov
Israel	– 3.4	Q4	– 9.6	Jan	+ 4.0	Feb	– 6.7	Feb	– 1.7	Q4	24.2	Feb
South Africa	+ 1.8	Q4	+ 4.6	Jan	+ 6.1	Feb	+ 3.7	Feb	– 0.2	Q4	6.0	Jan
Turkey	–10.4	Q4	– 3.1	Jan	+65.1	Mar	– 9.3	Dec	+ 3.3	Dec	20.5	Feb
Czech Republic	+ 3.2	Q4	+ 2.6	Jan	+ 3.9	Feb	– 2.9	Feb	– 2.7	Q4	14.7	Feb
Hungary	+ 3.3	Q4	– 0.6	Jan	+ 6.2	Feb	– 2.2	Feb	– 1.4	Feb	9.7	Feb
Poland	+ 0.3	Q4	+ 0.4	Feb	+ 3.5	Feb	–11.3	Feb	– 7.3	Feb	25.5	Feb
Russia	+ 4.9	Q3	+ 2.0	Feb	+17.9	Feb	+47.8	Jan	+35.1	Q4	32.8	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	– 5.6	Nov	+ 2.5	Jan	– 0.9	Feb	+ 0.3	2001†	3.6	Jan
Saudi Arabia	+ 1.7	2001§	na		nil	Dec	+37.5	2001§	+ 8.3	2001	17.6	Jan

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Apr 4th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 3rd		Dec 31st 2001	
	Apr 3rd	year ago	Apr 3rd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	1,662.9	-3.7	- 2.9	- 2.9
Hong Kong	7.80	7.80	11.2	2.20	10,834.0	-1.4	- 4.9	- 5.0
India	48.9	46.6	70.2	6.13	3,463.0	+0.1	+ 6.2	+ 4.8
Indonesia	9,803	10,610	14,086	17.27	488.2	+1.4	+ 24.5	+ 32.1
Malaysia	3.80	3.80	5.46	3.25	755.5	-0.1	+ 8.5	+ 8.5
Philippines	51.2	50.1	73.5	6.63	1,419.7	+1.1	+ 21.5	+ 22.6
Singapore	1.84	1.81	2.65	0.94	1,783.0	-0.7	+ 9.8	+ 10.0
South Korea	1,324	1,368	1,903	4.83	918.6	+1.8	+ 32.4	+ 31.4
Taiwan	35.0	33.0	50.2	2.55	6,294.7	+2.4	+ 13.4	+ 13.5
Thailand	43.7	45.4	62.7	2.25	364.1	-3.4	+ 19.8	+ 21.4
Argentina	2.94**	1.00	4.22	na	431.4	-1.1	+ 46.0	- 50.3
Brazil	2.29	2.17	3.29	18.52	13,084.8	-2.5	- 3.6	- 2.6
Chile	657	597	944	4.56*	5,273.7	-1.1	- 2.3	- 1.7
Colombia	2,265	2,317	3,255	.	1,103.5	+0.1	+ 3.0	+ 3.6
Mexico	9.04	9.43	13.0	6.21	7,191.9	-2.3	+ 12.9	+ 14.5
Peru	3.45	3.52	4.96	2.65	1,305.3	+0.4	+ 11.1	+ 10.8
Venezuela	906	708	1,301	27.00	6,900.5	+1.1	+ 5.0	- 12.2
Egypt	4.64	3.89	6.66	7.20	5,209.7	-3.8	- 1.2	- 2.5
Israel	4.78	4.21	6.86	2.73	375.5	-6.2	- 16.0	- 22.3
South Africa	11.1	8.05	16.0	11.20	11,123.5	+1.3	+ 6.5	+ 15.0
Turkey	1,320,000	1,245,000	1,896,840	49.00	11,276.9	-4.9	- 18.2	- 9.8
Czech Republic	34.5	38.4	49.6	4.30	427.4	+0.2	+ 8.3	+ 11.7
Hungary	276	295	396	8.43	8,140.6	+0.7	+ 14.2	+ 13.8
Poland	4.10	4.04	5.89	10.24	14,778.0	-1.8	+ 6.1	+ 2.4
Russia	31.2	28.9	44.8	25.00	339.8†	+0.1	+ 33.7	+ 30.7
EMF (MSCI)‡	1.00	1.00	1.44	na	353.6††	+0.8	na	+ 11.4
EMBI+§	1.00	1.00	1.44	na	214.6	+0.6	na	+ 7.1

*New series. †In $ terms. ††Apr 2nd. ‡Emerging Mkts Free. §J.P. Morgan Chase's Emerging Mkts Bond Index Plus. **Fixed official rate 1.40.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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